

Magic Holdings International Limited

美即控股國際有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code:1633



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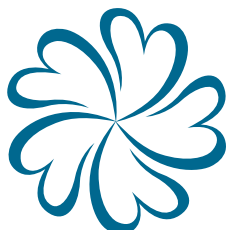
Global
Offering

Sole Global Coordinator, Sole Bookrunner, Sole Sponsor and Sole Lead Manager

 BOC INTERNATIONAL

IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.



MAGIC HOLDINGS INTERNATIONAL LIMITED

美即控股國際有限公司

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	:	200,000,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	:	20,000,000 Shares (subject to adjustment)
Number of International Offer Shares	:	180,000,000 Shares (subject to adjustment and the Over-allotment Option)
Maximum Offer Price	:	HK\$3.30 per Offer Share, plus brokerage fee of 1.0%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value	:	HK\$0.10 per Share
Stock code	:	1633

Sole Global Coordinator, Sole Bookrunner, Sole Sponsor and Sole Lead Manager



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Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the section headed "Appendix VII — Documents Delivered to the Registrar of Companies and Available for Inspection" in this prospectus, has been registered with the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement between the Sole Bookrunner (on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or around 16 September 2010 and, in any event, not later than 20 September 2010. The Offer Price will not be more than HK\$3.30 and is currently expected to be not less than HK\$2.40. Investors applying for Hong Kong Offer Shares and Reserved Shares must pay, on application, the maximum Offer Price of HK\$3.30 for each Offer Share together with a brokerage of 1.0%, a SFC transaction levy of 0.004% and a Stock Exchange trading fee of 0.005%.

The Sole Bookrunner, on behalf of the Underwriters, may, with our consent, reduce the number of Offer Shares and/or the indicative Offer Price range stated in this prospectus (which is HK\$2.40 to HK\$3.30 per Offer Share) at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering and the Preferential Offering. In such case, notice of the reduction in the number of Offer Shares and/or the indicative Offer Price range will be published in The Standard (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Hong Kong Public Offering and the Preferential Offering. Such notice will also be available at the website of the Stock Exchange at www.hkexnews.hk and our website at www.magicholdings.co. If applications for Hong Kong Offer Shares and Reserved Shares have been submitted prior to the last day for lodging applications under the Hong Kong Public Offering or the Preferential Offering, then even if the number of Offer Shares and/or the indicative Offer Price range is so reduced, such applications cannot be subsequently withdrawn. Further details are set out in the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares and Reserved Shares" in this prospectus.

If, for any reason, the Sole Bookrunner (on behalf of the Underwriters) and us are unable to reach an agreement on the Offer Price by 20 September 2010, the Global Offering will not become unconditional and will lapse immediately.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus and the related Application Forms, including the risk factors set out in the section headed "Risk Factors" in this prospectus.

Prospective investors should note that the obligations of the Hong Kong Underwriters under the Underwriting Agreement to subscribe, and to procure subscribers for, the Hong Kong Offer Shares are subject to termination by the Sole Global Coordinator (on behalf of the Underwriters) if certain events shall occur prior to 8:00 a.m. on the day on which trading in the Shares commences on the Stock Exchange. Such grounds are set out in the section headed "Underwriting" in this prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States or to, or for the account or benefit of U.S. persons, except pursuant to an exemption from, or in a transaction not subject to, the registration requirement under the U.S. Securities Act.

10 September 2010

EXPECTED TIMETABLE⁽¹⁾

Latest time to complete electronic applications under the
HK eIPO White Form service through the designated
website at www.hkeipo.hk⁽²⁾11:30 a.m. on Wednesday, 15 September 2010

Application lists of the Hong Kong Public Offering and
the Preferential Offering open⁽³⁾11:45 a.m. on Wednesday, 15 September 2010

Latest time to complete payment of **HK eIPO White Form**
applications by effecting internet banking transfer(s)
or PPS payment transfer(s)12:00 noon on Wednesday, 15 September 2010

Latest time to lodge **WHITE, YELLOW** and
BLUE Application Forms12:00 noon on Wednesday, 15 September 2010

Latest time to give **electronic application instructions**
to HKSCC⁽⁴⁾12:00 noon on Wednesday, 15 September 2010

Application lists of the Hong Kong Public Offering and
the Preferential Offering close12:00 noon on Wednesday, 15 September 2010

Expected Price Determination Date⁽⁵⁾ Thursday, 16 September 2010

Announcement of:

- the Offer Price;
- the level of indications of interest in the International Offering;
- the level of applications under the Hong Kong Public Offering and the Preferential Offering; and
- the basis of allotment of the Hong Kong Offer Shares and the Reserved Shares

to be published in The Standard (in English) and
the Hong Kong Economic Times (in Chinese), on the
website of the Stock Exchange at www.hkexnews.hk and on
the website of our Company at www.magicholdings.co
on or beforeWednesday, 22 September 2010

Announcement of results of allotment in the Hong Kong Public
Offering and the Preferential Offering (with successful applicants'
identification document numbers, where applicable) available
through a variety of channels as described in the section headed
"How to Apply for Hong Kong Offer Shares and Reserved Shares"
in this prospectusWednesday, 22 September 2010

EXPECTED TIMETABLE⁽¹⁾

Results of allocations in the Hong Kong Public Offering
and the Preferential Offering will be available at
www.tricor.com.hk/ipo/result with a “search by ID” functionWednesday, 22 September 2010

Despatch of Share certificates in respect of wholly or partially
successful applications on or beforeWednesday, 22 September 2010

Despatch of refund cheques (if applicable) in respect of
wholly and partially successful applications (if applicable)
or wholly or partially unsuccessful applications on or beforeWednesday, 22 September 2010

Despatch of **HK eIPO White Form** e-Auto Refund
payment (if applicable) in respect of wholly and partially
successful applications (if applicable) or wholly or
partially unsuccessful applications on or beforeWednesday, 22 September 2010

Dealings in the Shares on the Stock Exchange
expected to commence onFriday, 24 September 2010

Notes:

- (1) *All dates and times refer to Hong Kong dates and time, except otherwise stated. Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus. If there is any change in the above expected timetable, we will issue a separate announcement in Hong Kong to be published in The Standard (in English) and the Hong Kong Economic Times (in Chinese).*
- (2) *You will not be permitted to submit your application through the designated website at www.hkeipo.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.*
- (3) *If there is a tropical cyclone warning signal number 8 or above, or a “black” rainstorm warning in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 15 September 2010, the application lists will not open and close on that day. Please refer to the sections headed “How to Apply for Hong Kong Offer Shares and Reserved Shares — I. How to Apply for Hong Kong Offer Shares — 7. When may applications be made — (e) Effect of bad weather conditions on the opening of the application lists” and “How to Apply for Hong Kong Offer Shares and Reserved Shares — II. How to Apply for Reserved Shares — 5. When may applications be made — (c) Effect of bad weather conditions on the opening of the application lists” in this prospectus.*
- (4) *Applicants who apply for Hong Kong Offer Shares or Reserved Shares by giving electronic application instructions to HKSCC should refer to the sections headed “How to Apply for Hong Kong Offer Shares and Reserved Shares — I. How to Apply for Hong Kong Offer Shares — 6. How to apply by giving electronic application instructions to HKSCC” and “Further Terms and Conditions of Hong Kong Public Offering and Preferential Offering — 9. Additional information for applicants applying by giving electronic application instructions” in this prospectus.*
- (5) *The Price Determination Date is expected to be on or about Thursday, 16 September 2010, and in any event will not be later than Monday, 20 September 2010. If, for any reason, the Offer Price is not agreed on or before Monday, 20 September 2010, the Global Offering will not proceed and will lapse.*

EXPECTED TIMETABLE⁽¹⁾

Share certificates will only become valid certificates of title if the Global Offering has become unconditional in all respects and the Underwriting Agreement has not been terminated in accordance with its terms, which is expected to be at or around 8:00 a.m., on Friday , 24 September 2010. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of Share certificates or prior to the Share certificates becoming valid certificates of title do so entirely at their own risk.

e-Auto Refund payment instructions or refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and the Preferential Offering and also in respect of wholly or partially successful applications if the final Offer Price is less than the price payable per Offer Share on application. If you apply through the **HK eIPO White Form** service by paying the application monies through a single bank account, you may have e-Auto Refund payment instructions (if any) despatched to your application payment bank account on or around Wednesday, 22 September 2010. If you apply through the **HK eIPO White Form** service by paying the application monies through multiple bank accounts, you may have refund cheque(s) sent to the address specified in your application instructions to the designated **HK eIPO White Form** Service Provider on or around Wednesday, 22 September 2010, by ordinary post and at your own risk. Part of the applicant's Hong Kong identity card number or passport number, or if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Banks may require verification of an applicant's Hong Kong identity card number or passport number before cashing the refund cheque. Inaccurate completion of an applicant's Hong Kong identity card number or passport number may lead to delay in encashment of or may invalidate the refund cheque.

You should read carefully the sections headed "Underwriting", "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares and Reserved Shares" in this prospectus for details relating to the structure of the Global Offering, how to apply for Hong Kong Offer Shares and Reserved Shares and the expected timetable including, inter alia, applicable conditions, the effect of bad weather, and the despatch of refund cheques and Share certificates.

We will publish an announcement in case there is any change in the expected timetable of the Hong Kong Public Offering and the Preferential Offering as described above.

CONTENTS



You should rely only on the information contained in this prospectus to make your investment decision. We have not authorised anyone to provide you with different information. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by us, the Sole Global Coordinator, the Sole Bookrunner, the Sole Sponsor, the Sole Lead Manager, any of the Underwriters, any of our or their respective directors, officers or representatives or any other person or party involved in the Global Offering.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the entire prospectus before you decide to invest in the Offer Shares. There are risks associated with an investment in the Offer Shares. Some of the particular risks associated with an investment in the Offer Shares are set out in the section headed “Risk Factors” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

Our 美即 brand is the leading brand in the facial masks industry in China. According to the CTR Reports, our 美即 brand had the largest market share of 15.1% in the facial mask industry in China in 2009 in terms of retail sales. We are principally engaged in the research and development, manufacture and sales and marketing of facial masks and other skincare products in China.

We focus predominantly on and offer a diversified mix of facial mask products with different characteristics to cater for different skin types and satisfy consumer needs in China. As of 30 April 2010, we offered 11 series and 141 types of facial mask products under the brand of 美即. In recognition of our strong brand name and popularity among consumers, we have received various awards and certificates, including the “最佳部門銷售獎 — 全能面膜類 (Best Division Selling — All Purpose Facial Masks)” by Watsons in 2006, “HWB 最佳品類大獎 — 全能面膜獎 (Best Category of Products — All Purpose Facial Masks)” by Watsons in 2007 and “最具創意包裝設計 — 美即漢方面膜 (Most Creative Packaging Design — Magic Chinese Herbal Facial Masks)” by Watsons in 2009. Leveraging on our leading position in the PRC facial mask market and our established distribution and retail network in China, we are pursuing a multi-brand strategy and diversifying into other skincare products.

We sell all our products through an established network of distributors and retailers in China. For the three years ended 30 June 2007, 2008 and 2009 and the ten months ended 30 April 2009 and 2010, 69.3%, 71.8%, 83.1%, 82.3% and 92.9% of our revenue was derived through our distributors and 30.7%, 28.2%, 16.9%, 17.7% and 7.1% of our revenue was derived through our retailers. As of 30 April 2010, we had 75 distributors and one retailer spread over 21 provinces, two autonomous regions, and four municipalities in China. We sell most of our products to distributors who then sell directly to retailers such as personal care chain stores, hypermarkets, supermarkets and cosmetics speciality stores. As of 30 April 2010, our products were distributed by our distributors to 3,330 points of sale in China. When selecting distributors, we generally require our distributors to have an extensive distribution network, sufficient warehousing facilities, stable financial condition, good creditworthiness, strong delivery capabilities and compatibility with our business strategies. We also sell our products directly to our retailers, which are mainly hypermarkets and supermarkets. We generally require our retailers to have a well-established retail network, an inventory management system, stable financial condition and compatibility with our business strategies. We generally enter into distribution agreements with our distributors and merchandise contracts with our retailers for a term of 12 months which may be renewed on an annual basis.

As of 30 April 2010, we had 881 salespersons hired through an Independent Third Party employment agency actively promoting and selling our products on the ground and interfacing with consumers at our points of sale throughout China. Building on our leading position in the facial mask industry in China, we plan to further expand our market coverage outside China to Hong Kong, Macau, Taiwan and the south-east Asian region by selling directly to distributors and/or retailers located in these markets within the next two to three years.

SUMMARY

All of our operations are in China, which is one of the fastest growing economies in the world with retail sales of consumer goods growing at a CAGR of 18.5% from 2007 to 2009. During the same period, according to the ZPI Report, sales of skincare products in China outpaced retail sales of consumer goods in China and grew at a CAGR of 19.7%, while facial mask sales in China grew at a CAGR of 31.6%, outpacing the growth rate of retail sales of consumer goods and the skincare industry in China. Leveraging on our brand and leading position in the PRC facial mask market, we believe that we are well positioned to capture this fast growing facial mask industry.

We have enjoyed rapid growth during the Track Record Period. Our revenue and net profit grew at CAGRs of 69.2% and 75.1%, respectively over the three year period ended 30 June 2009. For the three years ended 30 June 2007, 2008 and 2009 and the ten months ended 30 April 2009 and 2010, our revenue was HK\$130.9 million, HK\$252.8 million, HK\$374.6 million, HK\$298.0 million and HK\$509.2 million, respectively while our net profit for the same periods was HK\$21.6 million, HK\$34.1 million, HK\$66.2 million, HK\$48.7 million and HK\$101.8 million, respectively.

COMPETITIVE STRENGTHS

We believe that our success to date are attributable to a combination of our competitive strengths, as set out below:

- Well positioned to capture the fast-growing facial mask industry in China
- Leader of the facial mask industry in China and strong brand recognition
- Extensive and multi-faceted sales channels
- Strong product development capabilities
- An experienced and progressive management team

STRATEGIES

We aim to become a leader in the skincare industry in Asia. We intend to achieve this goal through the following strategies:

- Promote and develop the growth of and continue to increase our leading position in the Chinese facial mask industry
- Pursue a multi-brand strategy and diversify into other skincare products
- Expand and optimise our sales channels
- Continue to strengthen product development capability
- Expand production capacity

SUMMARY

RISK FACTORS

Our Group's operations are subject to a number of risks, a detailed discussion of which is set out in the section headed "Risk Factors" in this prospectus. These risks can be broadly classified into:

- Risks relating to our business
- Risks relating to our industry
- Risks relating to conducting business in the PRC
- Risks relating to the Global Offering

Set out below is a list of the risks referred to above.

Risks relating to our business

- We may fail to effectively promote our brands, which may adversely affect our performance and sales of our products
- We could be adversely affected by a future slowdown in the PRC skincare industry or a change in consumer preferences, perception and/or spending
- Our business and reputation may be affected by unknown side effects, quality control concerns, product liability claims, consumer complaints or adverse publicity in relation to our products
- We depend on a limited number of distributors for a high percentage of our revenue
- Our distributors and retailers may not pay us for their purchases in a timely manner or at all
- We may fail to continuously develop new products or our new products may not be successful
- Our brands and products may be subject to counterfeiting, imitation, and/or infringement by third parties
- Our success and business operations are largely dependent on certain key personnel and our ability to attract and retain talented personnel
- Our success depends on the ability of our distributors and retailers to sell our products
- Our distributors' and retailers' aggressive marketing of competitors' products may affect our results of operations and financial condition

SUMMARY

- Our brand image and business may be affected by our distributors' failure to comply with the geographical restriction and other requirements in the distribution agreements
- We may not be able to manage future rapid growth and our business and expansion of our operations may be affected
- Our joint venture arrangement with Hanbul may fail to produce the benefits for which we entered into such partnership
- We may encounter difficulties in expanding our distribution and retail network
- Third parties may assert or claim that we have infringed their intellectual property rights
- We do not maintain a large volume of raw materials or packaging materials at our production facility and our production may be interrupted in case of late delivery or short supply of raw materials or packaging materials
- Our results of operations could be adversely affected by any change in fair value of the derivative component of the Shares issued to the First Strategic Investors
- We rely on the continuity of our existing processing arrangement with GZCCL
- We rely on an Independent Third Party employment agency to provide contract staff for our sales and promotional activities and we may be jointly liable for the employment agency's failure to comply with applicable labour laws
- One of our leased properties lacks the requisite building ownership certificate and we may be required to relocate our production facility
- We have not paid certain housing provident fund contribution for and on behalf of our employees and we may be subject to the imposition of fines or penalties
- We may be subject to fines or other penalties if we fail to develop our land according to the terms of the land grant contract
- Our operations may be affected by any prolonged business interruption at our production facility
- Our insurance coverage may not completely cover the risks related to our business and operations
- We are a holding company that relies heavily on dividend payments from our subsidiaries for funding

SUMMARY

Risks relating to our industry

- We face competition from other international brands, which may affect our market share and profit margins
- We require various licences and permits to operate our business and the loss of or failure to obtain or renew any or all of these licences and permits could adversely affect our business
- Changes in existing laws and regulations may cause us to incur additional costs to comply with more stringent rules, which could slow down our product development efforts and limit our growth and development

Risks relating to conducting business in the PRC

- The PRC's economic, political and social conditions, as well as governmental policies, could affect the financial markets in China, our liquidity and access to capital and our ability to operate our business
- Future changes in laws, regulations or enforcement policies in China could adversely affect us
- Uncertainties with respect to the PRC legal system could materially and adversely affect us
- Restriction of payment of dividends under PRC law and the tax exemptions on dividends received by the Company and the Shareholders may be affected by the new Enterprise Income Tax Law (企業所得稅法)
- Dividends payable by us to our investors and gains on the sale of our Shares may become subject to withholding taxes under PRC tax laws
- Changes in foreign exchange regulations may adversely affect our business, financial condition and results of operations
- PRC regulation of direct investment and loans by offshore holdings companies to PRC entities may delay or limit us from using the proceeds of the Global Offering to make additional contribution or loans to our PRC subsidiaries
- It may be difficult to effect service of process upon us or our Directors who live in the PRC or to enforce against us or them judgments obtained from non-PRC courts
- We are subject to a wide variety of environmental regulations and any failure to comply with these regulations or to control the associated costs could harm our business
- The enforcement of the PRC Labour Contract Law (勞動合同法) and other labour-related regulations in the PRC may adversely affect our business and our results of operations

SUMMARY

- We may be subject to acts of God, acts of war and epidemics which are beyond our control and which may cause damage, loss or disruption to our business

Risks relating to the Global Offering

- There has been no previous public market for our Shares, and an active trading market may not develop
- Investors will experience dilution in pro forma net tangible book value because the Offer Price is higher than our net tangible book value per Share
- The trading volume and share price of our Shares may fluctuate
- Our historical dividend policy do not indicate our future dividend policy
- Future sales, or perceived sales, of substantial amounts of our Shares in the public market could materially and adversely affect the prevailing market price of our Shares
- Investors may face difficulties in protecting their interests because we are incorporated under Cayman Islands law, and Cayman Islands law may provide different remedies to minority Shareholders when compared with the laws of Hong Kong and other jurisdictions
- Certain facts and statistics in this prospectus relating to the PRC, the PRC economy and the PRC skincare industry may not be reliable
- The initial trading price of the Offer Shares could be lower than the Offer Price
- We strongly caution you not to place any reliance on any information contained in press articles or other media regarding us and the Global Offering

SUMMARY HISTORICAL FINANCIAL INFORMATION

The tables below present the summary combined financial information of our Group. The summary combined income statements data for each of the three years ended 30 June 2007, 2008, 2009 and the ten months ended 30 April 2009 and 2010, the summary combined statements of financial position data as of 30 June 2007, 2008 and 2009 and 30 April 2010 and the summary combined cash flows data for each of the three years ended 30 June 2007, 2008, 2009 and the ten months ended 30 April 2009 and 2010 are derived from, and should be read in conjunction with our combined financial information, including the notes thereto, set out in the accountants' report in Appendix I to this prospectus. Financial information related to the ten months ended 30 April 2009 is derived from unaudited financial statements that have been reviewed by our reporting accountants.

SUMMARY

Summary combined income statements information

	Year ended 30 June			Ten months ended 30 April	
	2007	2008	2009	2009	2010
	HK\$ ('000)	HK\$ ('000)	HK\$ ('000)	HK\$ ('000) (unaudited)	HK\$ ('000)
Revenue	130,913	252,814	374,593	298,037	509,235
Cost of sales	<u>(31,690)</u>	<u>(62,274)</u>	<u>(104,939)</u>	<u>(76,913)</u>	<u>(117,780)</u>
Gross profit	99,223	190,540	269,654	221,124	391,455
Other income and gains	1,175	3,543	1,704	1,701	1,825
Selling and distribution costs	(57,319)	(125,508)	(175,321)	(151,223)	(263,996)
Administrative expenses	(7,477)	(10,520)	(13,584)	(11,066)	(22,488)
Fair value gain on derivative financial instruments ⁽¹⁾	—	—	—	—	14,063
Finance costs	<u>—</u>	<u>(177)</u>	<u>(142)</u>	<u>(127)</u>	<u>(48)</u>
Profit before tax	35,602	57,878	82,311	60,409	120,811
Income tax expense ⁽²⁾	<u>(13,999)</u>	<u>(23,790)</u>	<u>(16,083)</u>	<u>(11,750)</u>	<u>(19,052)</u>
Profit for the year/period	<u>21,603</u>	<u>34,088</u>	<u>66,228</u>	<u>48,659</u>	<u>101,759</u>
Profit attributable to:					
Equity holders of the Company . . .	14,182	24,617	67,618	49,815	102,742
Non-controlling interests ⁽³⁾	<u>7,421</u>	<u>9,471</u>	<u>(1,390)</u>	<u>(1,156)</u>	<u>(983)</u>
	<u>21,603</u>	<u>34,088</u>	<u>66,228</u>	<u>48,659</u>	<u>101,759</u>

Notes:

- (1) Our fair value gain on derivative financial instruments represents the fair value changes of the derivatives associated with the investments made by the First Strategic Investors. Please refer to section 36 of the accountants' report in Appendix I to this prospectus for a more detailed discussion on our derivative financial instruments.
- (2) Going forward, our effective tax rate may increase as a result of the expiry of the two-year tax holiday for MG Cosmetics on 31 December 2009 and the imposition of a cap on the amount of sales and promotional expenses that may be deductible under the new Enterprise Income Tax Law (企業所得稅法). Such non-deductible expenses may however be carried forward for deduction in the future. In the event that our effective tax rate increases in the future, our net profit margin may decrease.
- (3) Please refer to the section headed "Financial Information" in this prospectus for further discussion on the profit attributable to non-controlling interests.

SUMMARY

Summary combined statements of financial position information

	As of 30 June			As of 30 April
	2007	2008	2009	2010
	HK\$ ('000)	HK\$ ('000)	HK\$ ('000)	HK\$ ('000)
Assets				
Non-current assets	23,496	56,603	52,927	58,869
Current assets	93,880	178,877	213,989	351,082
Total assets	<u>117,376</u>	<u>235,480</u>	<u>266,916</u>	<u>409,951</u>
Equity and liabilities				
Total equity	47,100	162,376	169,377	318,063
Non-current liabilities	2,237	10,866	9,759	6,794
Current liabilities	68,039	62,238	87,780	85,094
Total equity and liabilities	<u>117,376</u>	<u>235,480</u>	<u>266,916</u>	<u>409,951</u>

Summary combined cash flows information

	As of 30 June			As of 30 April	
	2007	2008	2009	2009	2010
	HK\$ ('000)	HK\$ ('000)	HK\$ ('000)	HK\$ ('000) (unaudited)	HK\$ ('000)
Net cash flows from operating activities	18,147	3,448	50,350	71,258	80,956
Net cash flows used in investing activities	(38,599)	(49,199)	(44,209)	(50,014)	(91,502)
Net cash flows from/(used in) financing activities	28,932	39,000	(2,828)	(8,500)	51,569

PROFIT ESTIMATE FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

Estimated combined profit attributable to equity holders
of our Company^{(1) & (2)}not less than HK\$110 million

Estimated earnings per Share

- pro forma fully diluted⁽³⁾not less than HK\$0.1375

Notes:

(1) The bases and assumptions on which the above profit estimate for the year ended 30 June 2010 has been prepared are summarised in Appendix III to this prospectus.

SUMMARY

- (2) *The estimated combined profit attributable to equity holders of our Company for the year ended 30 June 2010 prepared by our Directors is based on the audited combined income statements of our Group for the ten months ended 30 April 2010 and the estimated combined results of our Group for the two months ended 30 June 2010. The estimate has been prepared on the basis of the accounting policies being consistent in all material respects with those currently adopted by our Group as set out in section 1 “Significant accounting policies” in the accountants’ report in Appendix I to this prospectus.*
- (3) *The calculation of the estimated earnings per Share on a pro forma fully diluted basis of HK\$0.1375 is based on the estimated combined profit attributable to equity holders of our Company for the year ended 30 June 2010, assuming that our Company had been listed since 1 July 2009 and a total of 800,000,000 Shares have been in issue during the entire year. The calculation of the pro forma fully diluted estimated earnings per Share does not take into account any Shares which may be issued upon the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the number of Shares in issue would be 830,000,000 shares, and the estimated earnings per Share on the pro forma fully diluted basis mentioned above would be HK\$0.1325. Please refer to “Unaudited Pro Forma Fully Diluted Estimated Earnings Per Share” in Appendix II to this prospectus.*

GLOBAL OFFERING STATISTICS⁽¹⁾

	<u>Based on an Offer Price of HK\$2.40 per Offer Share</u>	<u>Based on an Offer Price of HK\$3.30 per Offer Share</u>
Market capitalisation of the Shares ⁽²⁾	HK\$1,920 million	HK\$2,640 million
Prospective price/earnings multiple on a pro forma basis ⁽³⁾ . .	17.5 times	24.0 times
Pro forma adjusted net tangible asset value per Share ⁽⁴⁾	HK\$0.88	HK\$1.10

Notes:

- (1) *All statistics in this table assume the Over-allotment Option is not exercised.*
- (2) *The calculation of market capitalisation is based on 800,000,000 Shares expected to be in issue immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised at all).*
- (3) *The calculation of the prospective price/earnings multiple on a pro forma basis is based on the estimated earnings per Share for the year ended 30 June 2010 on a pro forma basis assuming that our Company had been listed since 1 July 2009 and a total of 800,000,000 Shares were issued during the entire year.*
- (4) *The pro forma adjusted net tangible asset value per Share is arrived at after the adjustments referred to in the section entitled “Financial Information — Unaudited Pro Forma Adjusted Net Tangible Assets” in this prospectus and on the basis of 800,000,000 Shares issued at the respective indicative Offer Prices of HK\$2.40 per Offer Share and HK\$3.30 per Offer Share following the Global Offering.*

DIVIDEND POLICY

During the year ended 30 June 2009, our subsidiary Guangdong Qunhe declared to its then shareholders a dividend of HK\$47.4 million. Such dividend was paid before Listing. Save as disclosed above, no other dividends were declared or distributed by us or any of our subsidiaries during the Track Record Period. We currently do not have a fixed dividend policy. According to the Articles of Association, we may declare and pay dividends out of our distributable reserves. The payment and the amount of any dividends will depend on the results of our operations, cash flows, financial condition, statutory and regulatory restrictions on the payment of dividends, future prospects and other factors that we may consider relevant. Holders of the Shares will be entitled to receive such dividends on a pro rata basis according to the amounts paid up or credited as paid up on the Shares. The declaration, payment, and amount of dividends will be subject to our discretion.

SUMMARY

Dividends may be paid only out of our distributable profits as permitted under the relevant laws. To the extent profits are distributed as dividends, such profits will not be available to be reinvested in our operations. There is no assurance that dividends will be paid in the future. Neither will there be any assurance regarding the amount or timing of any dividends that will be paid in the future. Our dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme, the purpose of which is to motivate our Directors, senior management and employees to optimise their future contributions to our Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain ongoing relationships with such participants who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of our Group and additionally, in the case of the executive Directors and senior management of our Group, to enable our Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions. For details of the Share Option Scheme, please refer to the paragraph headed “Share Option Scheme” in Appendix VI to this prospectus.

SHARE AWARD PLAN

We have adopted the Share Award Plan on 30 October 2009. The purpose of the Share Award Plan is to recognise and reward the contribution of the eligible participants to the growth and development of our Group through an award of shares. The Share Award Plan shall be subject to the administration of the directors of Magic Holdings or, upon completion of the Reorganisation, the Directors. Pursuant to the Share Award Plan, 5% of the shares of Magic Holdings (as enlarged by the allotment and issue of such 5% shares under the Share Award Plan) were allotted and issued to the Share Award Plan Trustee, among which shares representing approximately 0.2% of the shares of Magic Holdings (as enlarged by the allotment and issue of such 5% shares under the Share Award Plan) were transferred by the Share Award Plan Trustee to Mr. Ho immediately before the Company’s acquisition of Magic Holdings pursuant to the Reorganisation in accordance with the terms of the relevant award letter. The remaining shares of Magic Holdings were held by the Share Award Plan Trustee in accordance with the rules of the Share Award Plan, out of which shares representing approximately 2.66% of the shares of Magic Holdings (as enlarged by the allotment and issue of such 5% shares under the Share Award Plan) have been awarded to senior management and employees of our Group and will be transferred to them by the Share Award Plan Trustee in accordance with the terms and conditions of such awards and the rules of the Share Award Plan. For details of the Share Award Plan, please refer to the paragraph headed “Share Award Plan” in Appendix VI to this prospectus.

STRATEGIC INVESTMENT


On 10 November 2009, Hua Han, Magic Holdings and the First Strategic Investors entered into a share subscription and sale and purchase agreement in relation to the subscription of an aggregate of 1,739 shares of Magic Holdings by the First Strategic Investors and the sale and purchase of an aggregate of 1,887 shares of Magic Holdings held by Hua Han through Queenherb at the subscription price of HK\$62.4 million and the purchase price of approximately HK\$67.7 million respectively. On 25

SUMMARY

March 2010, the Management Shareholders and Atlantis Healthcare entered into a sale and purchase agreement in relation to the sale and purchase of an aggregate of 434 shares of Magic Holdings held by the Management Shareholders at the purchase price of approximately HK\$22.8 million. For details of the above mentioned strategic investment, please refer to the paragraphs headed “Strategic Investment” in the section headed “History, Reorganisation and Corporate Structure” in this prospectus.

USE OF PROCEEDS

We estimate that the aggregate net proceeds of the Global Offering (after deducting underwriting fees and estimated expenses payable by us in connection with the Global Offering, and assuming an Offer Price of HK\$2.85 per Offer Share, being the mid point of the indicative Offer Price range of HK\$2.40 to HK\$3.30 per Offer Share) will be approximately HK\$520.0 million, assuming that the Over-allotment Option is not exercised. We currently intend to apply such net proceeds in the following manner:

- approximately HK\$182.0 million (equivalent to approximately 35% of our total estimated net proceeds) will be used to market and promote our existing and new brands and products, of which (i) approximately HK\$70.0 million will be used on advertisements in magazines, the Internet, public transport and television; (ii) approximately HK\$40.0 million will be used to expand and enhance our distribution network; and (iii) the balance will be used on roadshows and other promotional activities;
- approximately HK\$130.0 million (equivalent to approximately 25% of our total estimated net proceeds) will be used for capital expenditures to establish new production facility in GHIDZ and purchase new production machinery and equipment for the production of products under our 美即  brand and other future brands;
- approximately HK\$104.0 million (equivalent to approximately 20% of our total estimated net proceeds) will be used to (i) design, research and develop new series of facial mask products, new series of Chinese herbal skincare products and skincare products to be used before and after the application of facial masks, and (ii) enhance and improve the functionality of our existing products;
- approximately HK\$52.0 million (equivalent to approximately 10% of our total estimated net proceeds) will be used to market, sell and distribute cosmetic and skincare products in the PRC under MG JV Group; and
- approximately HK\$52.0 million (equivalent to approximately 10% of our total estimated net proceeds) for working capital and other general corporate purposes;

If the Offer Price is set at the high end of the indicative Offer Price range, being HK\$3.30 per Offer Share, the net proceeds of the Global Offering (assuming that the Over-allotment Option is not exercised) will increase by approximately HK\$88.0 million. If the Offer Price is set at the low end of the indicative Offer Price range, being HK\$2.40 per Share, the net proceeds of the Global Offering (assuming that the Over-allotment Option is not exercised) will decrease by approximately HK\$87.0 million. We will adjust the allocation of the net proceeds for the above purposes on a pro-rata basis.

SUMMARY

If the Over-allotment Option is exercised in full, the net proceeds of the Global Offering will increase to approximately HK\$603.0 million, assuming the Offer Price is set at the mid-point of the indicative Offer Price range. If the Offer Price is set at the high end of the indicative Offer Price range, the net proceeds of the Global Offering (including the proceeds from the exercise of the Over-allotment Option) will increase by approximately HK\$100.0 million. If the Offer Price is set at the low end of the indicative Offer Price range, the net proceeds of the Global Offering (including the proceeds from the exercise of the Over-allotment Option) will decrease by approximately HK\$100.0 million. We intend to apply the additional net proceeds from the exercise of the Over-allotment Option to the above purposes on a pro-rata basis.

Should our Directors decide to reallocate the intended use of proceeds to other business plans and/or new projects of our Group to a material extent and/or there is to be any material modification to the use of proceeds as described above, we will make appropriate announcement(s) in due course.

To the extent that the net proceeds of the Global Offering are not immediately required for the above purposes or if we are unable to effect any part of our future development plans as intended, we may hold such funds in short-term deposits with licensed banks and authorised financial institutions in Hong Kong for so long as it is in our best interests. We will also disclose the same in the relevant annual report.

As advised by our PRC legal adviser, subject to the relevant PRC governmental approval, registrations and/or filings, the net proceeds of the Global Offering can be applied in the PRC according to the above intended use of the net proceeds under the relevant existing laws and regulations in the PRC by: (i) increasing the registered capital of the Company's subsidiaries in the PRC; (ii) establishing a new subsidiary in the PRC; (iii) acquiring equity interests in other companies in the PRC; and/or (iv) providing shareholder's loans to the Company's subsidiaries in the PRC in an amount not exceeding the difference between the investment amount and the registered capital of such subsidiary. The Directors are of the view that there will be no material impact on the Group's liquidity requirements if the net proceeds of the Global Offering cannot be applied in the PRC.

THE GLOBAL OFFERING

The Global Offering consists of:

- the offer of initially 20,000,000 Hong Kong Offer Shares for subscription by the public in Hong Kong, referred to in this prospectus as the Hong Kong Public Offering; and
- the offer of initially 180,000,000 International Offer Shares outside the United States in offshore transactions in reliance on Regulation S, including to professional and institutional investors in Hong Kong, referred to in this prospectus as the International Offering; the International Offering also includes the Preferential Offering, under which up to 8,011,700 Shares will be offered as Reserved Shares for subscription by the Qualifying Hua Han Shareholders.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below.

“Application Form(s)”	WHITE Application Form(s), YELLOW Application Form(s) BLUE Application Form(s) and GREEN Application Form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offering or the Preferential Offering
“Articles of Association” or “Articles”	the articles of association of our Company approved by the written resolutions of our Shareholders on 6 September 2010, as amended or supplemented from time to time
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Assured Entitlement”	the entitlement for a Qualifying Hua Han Shareholder to apply for Reserved Shares under the Preferential Offering on the basis of an assured allotment of 20 Reserved Shares for every integral multiple of 4,000 Hua Han Shares held by each Qualifying Hua Han Shareholder as at 5:00 pm on the Record Date
“Atlantis”	Atlantis China Star Fund Limited, a company incorporated in the Cayman Islands as an exempted open-ended investment company with limited liability and one of our Shareholders
“Atlantis Healthcare”	Atlantis China Healthcare Fund, a sub-fund of Atlantis International Umbrella Fund, which in turn is an open-ended umbrella unit trust established as an undertaking for collective investment in transferable securities and one of our Shareholders
“Board”	the board of directors of our Company
“BOCI”	BOCI Asia Limited, a licensed corporation under the SFO for Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
“Business Day”	a day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
“BVI”	British Virgin Islands
“CAGR”	compound annual growth rate

DEFINITIONS

“Capitalisation Issue”	the issue of Shares to be made upon capitalisation of certain sum standing to the credit of the share premium account of the Company referred to in the paragraph headed “Resolutions in writing of all the Shareholders passed on 6 September 2010” in Appendix VI to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“China” or “PRC”	People’s Republic of China, but for the purpose of this prospectus and for geographical reference only and except where the context requires otherwise, references in this prospectus to “China” and the “PRC” do not apply to Hong Kong, Macau and Taiwan
“Cinda”	China Cinda (HK) Investments Management Company Limited, a company incorporated in Hong Kong with limited liability and one of our Shareholders
“Companies Ordinance”	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Company” or “our Company”	Magic Holdings International Limited, a company incorporated under the laws of the Cayman Islands with limited liability on 9 February 2010
“Connected Person”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and upon completion of the Global Offering, our Company will not have any Controlling Shareholder

DEFINITIONS

“Core Shareholders”	collectively Hua Han, Mr. Tang, Mr. She and Mr. Luo and “Core Shareholder” shall mean any one of them
“CTR Reports”	the reports on the facial mask industry in China commissioned by our Company and prepared by Kantar Worldpanel Limited, a subsidiary of CTR Market Research Company Limited and an Independent Third Party
“Director(s)”	the director(s) of our Company as of the date of this prospectus
“Donglisheng”	北京東麗盛化妝品有限公司 (Beijing Donglisheng Cosmetics Company Limited*), an indirect 70%-owned subsidiary of the Company
“First Strategic Investors”	collectively, Atlantis, Cinda and Good Record and “First Strategic Investor” shall mean any one of them
“Fractional Shareholders”	holders of Hua Han Shares, whose names appear on the register of members of Hua Han and are shown as holding fewer than 4,000 Hua Han Shares as at 5:00 pm on the Record Date, other than the Overseas Hua Han Shareholders
“GDP”	gross domestic product (all references to GDP growth rates are, unless expressly specified otherwise, to real as opposed to nominal rates of GDP growth)
“GHIDZ”	廣州高新技術產業開發區 (Guangzhou Hi-Tech Industrial Development Zone*) in Guangzhou, PRC
“GHMM”	貴州漢方製藥有限公司 (Guizhou Hanfang Medicine Manufacture Co., Ltd.*), an indirect wholly-owned subsidiary of Hua Han
“Global Offering”	the Hong Kong Public Offering and the International Offering (which includes the Preferential Offering)
“Good Record”	Good Record Holdings Limited, a company incorporated in the BVI with limited liability and a Shareholder
“Greater China”	consists of China, Hong Kong, Macau and Taiwan
“Green Application Form(s)”	the application form(s) to be completed by the HK eIPO White Form Service Provider designated by our Company
“Group”, “our Group”, “we”, “our” or “us”	our Company and its subsidiaries or, where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, the businesses operated by such subsidiaries or their predecessors (as the case may be)

DEFINITIONS

“Guangdong Qunhe”	廣東群禾藥業有限公司 (Guangdong Qunhe Pharmaceutical Company Limited*), an indirect wholly-owned subsidiary of the Company
“GZCCL”	廣州市中合美容化妝品有限公司 (Guangzhou Zhonghe Cosmetic Company Limited*), a company incorporated in the PRC with limited liability. GZCCL became an Independent Third Party in March 2010 after the spouse of Mr. She and the daughter of Mr. Luo resigned as the directors of GZCCL and disposed of their interests in GZCCL
“Hainan Yangpu”	海南洋浦正瀚貿易有限公司 (Hainan Yangpu Zhenghan Trading Company Limited*), an indirect wholly-owned subsidiary of the Company prior to it being disposed of on 18 January 2010
“Hanbul”	Hanbul Cosmetics Co., Ltd., a company established in Korea with limited liability and a joint venture partner of the Group
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKFRSs”	Hong Kong Financial Reporting Standards issued by HKICPA
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“ HK eIPO White Form ”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of HK eIPO White Form (www.hkeipo.hk)
“ HK eIPO White Form Service Provider ”	the HK eIPO White Form service provider designated by our Company, as specified on the designated website www.hkeipo.hk
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Offer Shares”	the 20,000,000 Shares being initially offered by our Company for subscription at the Offer Price pursuant to the Hong Kong Public Offering (subject to reallocation as described in the section headed “Structure of the Global Offering” in this prospectus)

DEFINITIONS

“Hong Kong Public Offering”	the offer for subscription of the Hong Kong Offer Shares to the public in Hong Kong at the Offer Price, subject to and in accordance with the terms and conditions set out in this prospectus and the Application Forms
“Hong Kong Share Registrar”	Tricor Investor Services Limited
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering whose names are set out in the section headed “Underwriting — Hong Kong Underwriters” in this prospectus
“Hua Han”	Hua Han Bio-Pharmaceutical Holdings Limited, a company incorporated in the Cayman Islands with limited liability, whose shares are listed on the Main Board and our Substantial Shareholder
“Hua Han Group”	Hua Han and its subsidiaries, which, for the purpose of this prospectus, excludes the Group
“Hua Han Shares”	ordinary shares which have a nominal value of HK\$0.1 each in the capital of Hua Han
“Independent Third Party(ies)”	party or parties that is or are not connected with us, any Directors, chief executives, Controlling Shareholders, Substantial Shareholders, their respective subsidiaries or any of their respective associates
“International Offer Shares”	the 180,000,000 Shares being offered by our Company for subscription under the International Offering, together, where relevant, with any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option, subject to reallocation as described in the section headed “Structure of the Global Offering” in this prospectus. International Offer Shares also include up to 8,011,700 Reserved Shares to be offered under the Preferential Offering
“International Offering”	the offer of the International Offer Shares at the Offer Price outside the United States in reliance on Regulation S, as further described in the section headed “Structure of the Global Offering” in this prospectus
“International Underwriter”	the underwriter of the International Offering whose name is set out in the section headed “Underwriting — International Underwriter” in this prospectus

DEFINITIONS

“Issuing Mandate”	the general unconditional mandate granted to our Directors by our Shareholders in relation to the issue of our new Shares, further information is set out in the paragraphs headed “Resolutions in writing of all the Shareholders passed on 6 September 2010” in Appendix VI to this prospectus
“Latest Practicable Date”	3 September 2010, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange
“Listing Date”	the date, expected to be on or about 24 September 2010, on which dealings in the Shares first commence on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
“Macau”	the Macau Special Administrative Region of the PRC
“Magic-Hanbul JV Agreement”	the joint venture structure agreement dated 2 March 2010 and entered into between Magic Holdings and Hanbul pursuant to which, among others, Magic Holdings and Hanbul agreed to establish the MG JV Group to market, sell and/or distribute cosmetic and skincare products under the “It’s Skin” and “ICS” brands in Greater China as stipulated therein
“Magic Holdings”	Magic Holdings Group Limited, a limited liability company incorporated in the BVI and a wholly-owned subsidiary of the Company
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange. For the avoidance of doubt, the Main Board excludes the Growth Enterprise Market
“Management Shareholders”	collectively, Mr. Tang, Mr. She, Mr. Luo, and Mr. Ho and “Management Shareholder” shall mean any one of them
“Memorandum of Association” or “Memorandum”	the memorandum of association of our Company approved by the written resolutions of our Shareholders on 9 February 2010, as amended or supplemented from time to time

DEFINITIONS

“MG Bio-tech”	廣州美即生物科技有限公司 (Guangzhou MG Bio-technology Co., Ltd.), an indirect wholly-owned subsidiary of the Company
“MG Cosmetics”	廣州美即化妝品有限公司 (Guangzhou MG Cosmetics Manufacture Co., Ltd), an indirect wholly-owned subsidiary of the Company
“MG JV Group”	the joint venture companies comprising MG JV BVI, MG JV HK and, upon the establishment of MG JV PRC, MG JV PRC in which the Group and Hanbul have an effective equity interest of 51% and 49% respectively
“MG JV BVI”	Magic-Hanbul Holdings Limited, a limited company incorporated in the BVI which is owned as to 51% by the Group and 49% by Hanbul and an indirect subsidiary of the Company
“MG JV HK”	Magic-Hanbul International Limited (美即韓佛國際有限公司), a limited company incorporated in Hong Kong and a wholly-owned subsidiary of MG JV BVI and an indirect subsidiary of the Company
“MG JV PRC”	a wholly-foreign owned enterprise to be established in the PRC and upon establishment, will be an indirect wholly-owned subsidiary of MG JV BVI and an indirect subsidiary of the Company, its proposed name being Magic-Hanbul Co., Ltd.
“Mijeuk”	Korea Mijeuk Co., Ltd. (韓國美即株式會社), an indirect wholly-owned subsidiary of the Company
“Ministry of Commerce” or “MOFCOM”	The Ministry of Commerce of the PRC (中華人民共和國商務部)
“Mr. Ho”	Mr. Ho Cheung Ping Dawnie (何掌平先生), one of our senior management and a Management Shareholder
“Mr. Luo”	Mr. Luo Yao Wen (駱耀文先生), an executive Director and a Management Shareholder
“Mr. She”	Mr. She Yu Yuan (佘雨原先生) (formerly known as She Dan Dan (佘丹丹) and She Jing Yang (佘勁揚)), an executive Director and a Management Shareholder
“Mr. Tang”	Mr. Tang Siu Kun Stephen (鄧紹坤先生), our Chairman and an executive Director and a Management Shareholder

DEFINITIONS

“OEM”	acronym for original equipment manufacturer, which is a manufacturer that manufactures goods or equipment that is subsequently sold by other companies under the brand names of such companies
“Offer Price”	the final offer price per Offer Share (exclusive of brokerage fee of 1.0%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%) of not more than HK\$3.30 and expected to be not less than HK\$2.40, such price to be agreed upon by us and the Sole Bookrunner (on behalf of the Underwriters) on or before the Price Determination Date
“Offer Shares”	the Hong Kong Offer Shares and the International Offer Shares, together with any Shares which may be issued pursuant to the exercise of the Over-allotment Option
“Over-allotment Option”	the option to be granted by us to and exercisable by the Sole Global Coordinator, pursuant to which we may be required to allot and issue up to an aggregate of 30,000,000 additional Shares (representing 15% of the Shares initially being offered under the Global Offering) to cover over-allocations in the International Offering, details of which are described in the section headed “Underwriting — Over-allotment Option” in this prospectus
“Overseas Hua Han Shareholders”	registered holders of Hua Han Shares, whose addresses on the register of members of Hua Han were outside Hong Kong at 5:00 pm on the Record Date.
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“PBOC Rate”	the exchange rate for foreign exchange transactions set daily by PBOC based on the previous day’s China interbank foreign exchange market rate and with reference to current exchange rates on the world financial markets
“Preferential Offering”	the preferential offer to the Qualifying Hua Han Shareholders of up to 8,011,700 Reserved Shares (representing approximately 4.0% of the Offer Shares initially available under the Global Offering) at the Offer Price on and subject to the terms and conditions stated herein and in the BLUE Application Form, as further described in the section headed “Structure of the Global Offering” in the prospectus

DEFINITIONS

“Price Determination Date”	the date, expected to be on or about 16 September 2010, on which the Offer Price is to be fixed by agreement between us and the Sole Bookrunner (on behalf of the Underwriters)
“Qualifying Hua Han Shareholders”	holders of Hua Han Shares whose names appear on the register of members of Hua Han as holding 4,000 or more Hua Han Shares at 5:00 pm on the Record Date, other than the Overseas Hua Han Shareholders.
“Queenherb”	Queenherb Enterprises Limited, a limited company incorporated in the BVI, which is a wholly-owned subsidiary of Hua Han and a Shareholder
“Qunhe HK”	Qunhe (Hong Kong) International Company Limited, a limited company incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Company
“Record Date”	6 September 2010, being the record date for ascertaining the Assured Entitlement
“Regulation S”	Regulation S under the U.S. Securities Act
“Renminbi” or “RMB”	the lawful currency of the PRC
“Reorganisation”	the corporate reorganisation of the Group in preparation for the Listing, particulars of which are set out under the paragraph headed “Corporate reorganisation” of Appendix VI to this prospectus
“Repurchase Mandate”	the general unconditional mandate granted to our Directors by our Shareholders in relation to the repurchase of our Shares, further information of which is set out in the paragraphs headed “Resolutions in writing of all the Shareholders passed on 6 September 2010” in Appendix VI to this prospectus
“Reserved Shares”	the Offer Shares available in the Preferential Offering and which form part of the International Offer Shares
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Share(s)”	ordinary share(s) of nominal value of HK\$0.1 each in the capital of our Company
“Share Award Plan”	the share award plan adopted by Magic Holdings, the principal terms of which are summarised in the paragraph headed “Share Award Plan” in Appendix VI to this prospectus
“Share Award Plan Trustee”	the remuneration committee of Magic Holdings acting by its members, namely Mr. Tang and Mr. She, who will hold Shares subject to the terms and conditions of the deed of settlement constituting the Magic Holdings Group Limited share award plan dated 30 October 2009 and executed by Magic Holdings as settlor and Mr. Tang and Mr. She as trustees, or such other trustee or trustees as shall be appointed pursuant to and in accordance with the terms of such deed
“Share Option Scheme”	the share option scheme conditionally adopted by the Company on 6 September 2010, the principal terms of which are set out under the paragraph headed “Share Option Scheme” in Appendix VI to this prospectus
“Shareholder(s)”	holder(s) of our Share(s)
“Sole Global Coordinator”, “Sole Bookrunner”, “Sole Sponsor” or “Sole Lead Manager”	BOCI
“Stabilisation Manager”	BOCI
“Stock Borrowing Agreement”	the stock borrowing agreement to be entered into on or about the Price Determination Date between the Stabilisation Manager and Queenherb
“Stock Exchange”	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“Strategic Investors”	collectively, Atlantis, Atlantis Healthcare, Cinda and Good Record
“subsidiary(ies)”	has the meaning ascribed to it in section 2 of the Companies Ordinance
“Substantial Shareholder”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers, as approved by the SFC and as amended from time to time

DEFINITIONS

“Track Record Period”	the three financial years ended 30 June 2009 and the ten months ended 30 April 2010
“U.S. dollars” or “US\$”	United States dollars, the lawful currency of the United States
“U.S. persons”	U.S. persons as defined in Regulation S
“U.S. Securities Act”	the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“Underwriters”	the Hong Kong Underwriters and the International Underwriter
“Underwriting Agreement”	the underwriting agreement dated 9 September 2010 relating to the Hong Kong Public Offering and the International Offering entered into by, amongst others, our Company, the Sole Global Coordinator and the Underwriters
“ZPI Report”	the Industry Research Report of China 2010: 2010-2015 Investment Analysis and In-depth Consultation Research Report on China Facial Mask Industry, a non-commissioned report published by Zero Power Intelligence Co., Ltd., an Independent Third Party, on the cosmetic and facial mask industries in China
“%”	per cent.

All times refer to Hong Kong time.

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown in totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

In this prospectus, if there is any inconsistency between the Chinese names of the entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail; and if there is any inconsistency between the Korean names of the entities or enterprises established in Korea and their Chinese or English translations, the Korean names shall prevail. The English translation of names or any descriptions in Chinese or the English or Chinese translation of names or any description in Korean, as the case may be, which are marked with “*” is for identification purposes only.

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements with respect to our business strategies, operating efficiencies, competitive positions, growth opportunities for existing operations, plans and objectives of management, certain pro forma information and other matters.

The words “anticipate”, “believe”, “could”, “predict”, “potential”, “continue”, “expect”, “intend”, “may”, “plan”, “seek”, “will”, “would”, “should” and the negative of these terms and other similar expressions identify a number of these forward-looking statements. These forward-looking statements, including, amongst others, those relating to our future business prospects, capital expenditures, cash flows, working capital, liquidity and capital resources are necessarily estimates reflecting the best judgment of our Directors and management and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. As a consequence, these forward-looking statements should be considered in light of various important factors, including those set out in the section headed “Risk Factors” in this prospectus. Accordingly, such statements are not a guarantee of future performance and you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.

RISK FACTORS

The Global Offering involves certain risks. You should carefully consider all of the information in this prospectus, including, but not limited to, the risks and uncertainties described in the following risk factors when considering making an investment in the Shares being offered in the Global Offering. Our business, financial condition and results of operations could be materially and adversely affected by any of the risks and uncertainties described below. The trading price of the Shares may decline due to any of the risks and uncertainties and you may lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS

We may fail to effectively promote our brands, which may adversely affect our performance and sales of our products

We believe that brand image plays an important role in influencing consumers' purchasing decisions for skincare products. The image of our 美即 MEG brand and other brands we may introduce in the future are therefore important to our success. We promote and enhance the image of our brands through various channels and methods including (i) organising frequent in-store marketing and promotional activities; (ii) advertising in magazines, the Internet and public transport; (iii) television commercials; and (iv) roadshows. We cannot give assurance that our marketing and promotional activities will remain effective. If we fail to successfully promote and enhance the image of our brands, the market recognition of our brands may suffer and demand for our products may decline or fail to rise and as a result, our business, financial condition and results of operations could be materially and adversely affected.

We could be adversely affected by a future slowdown in the PRC skincare industry or a change in consumer preferences, perception and/or spending

Our products are subject to the level of growth of the PRC skincare industry and changes in consumer preferences, perceptions and spending habits. Our performance depends on factors which may affect the level and pattern of consumer spending in China in general, and on skincare products in particular. Such factors include industry trends, consumer preferences, consumer confidence, consumer incomes and consumer perceptions of our products. A general decline in the consumption of our products could occur as a result of a slowdown in the PRC skincare industry or a change in consumer preferences, perceptions and spending habits at any time and our future success will depend partly on our ability to anticipate, adapt to such changes. Any failure to anticipate, identify or respond to such changes in a timely manner may result in a decrease in our competitiveness and our sales. Any future slowdown in the PRC skincare industry or changes in consumer preferences could result in lower sales of our products, put pressure on our pricing or lead to increased levels of selling and promotional expenses, resulting in a material adverse effect on our business, financial condition and results of operations.

Our business and reputation may be affected by unknown side effects, quality control concerns, product liability claims, consumer complaints or adverse publicity in relation to our products

Our products contain a number of ingredients, some of which or a combination of which may cause side effects that are unknown to us. Likewise, some of the raw materials we use in our production may contain harmful chemicals or substances of which we are not aware and which may cause undesirable side effects or harm to consumers. As of the Latest Practicable Date, we were not aware of

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any report of side effects of our products that might be harmful to consumers. Nevertheless, there is no assurance that our products will not have undesirable side effects on consumers in the future. If any side effect occurs or if our products are perceived to have such side effect, we may be affected financially as a result of related returns or recalls, complaints or claims, which in turn could lead to severe reputation damage, monetary losses or lawsuits. They may also result in negative publicity which could further damage the reputation of our brands and products. Moreover, we have adopted and will continue to adopt strict quality control procedures. We also provide quality assurance to our distributors, our retailers and consumers and allow them to exchange products due to quality defects, packaging defects or other reasons. We also have measures that allow us to voluntarily recall products from the market if we become aware of any quality defects, packaging defects or other issues. We cannot give assurance that such exchange would not happen or increase in the future. If consumers lose confidence in our brands and/or products, they may not purchase these products and as a result, our business, financial condition and results of operations could be materially and adversely affected.

We depend on a limited number of distributors for a high percentage of our revenue

We currently generate a majority of our revenue from a limited number of distributors. Our five largest distributors together accounted for approximately 48.5%, 56.6%, 54.3%, 53.0% and 52.4% of our total revenue for the three years ended 30 June 2007, 2008 and 2009 and the ten months ended 30 April 2009 and 2010, respectively. For the same periods, our largest distributor accounted for approximately 15.8%, 22.1%, 24.9%, 25.5% and 20.3% of our revenue, respectively. Our standard distribution agreement usually has a term of 12 months and is renewable by both parties on an annual basis. If any of our distributors terminates or does not renew its distribution agreement with us, we may not be able to replace such distributor with a new distributor in a timely manner or on terms commercially acceptable to us, or at all. As a result, any loss of a significant distributor could have a material adverse effect on our business, financial condition and results of operations.

Our distributors and retailers may not pay us for their purchases in a timely manner or at all

We sell all of our products through our distributors and retailers. We generally require our distributors to make payment to us before our products are delivered to them. We may also grant credit term of up to one year for certain amount of facial mask products to our distributors at the beginning of the calendar year on request on a case-by-case basis, depending on their estimated future sales, business scale, funding needs to expand their network and payment history. We require such distributors to settle payment for these products purchased on credit at the end of the calendar year. Once the credit amount is exceeded, no further credit is provided for any subsequent placement from these distributors and we still require these distributors to make payment to us before products under any subsequent placement of orders are delivered to them. We review the amount of products that may be delivered to our selected distributors on credit annually at the beginning of each calendar year. For the three years ended 30 June 2007, 2008 and 2009 and the ten months ended 30 April 2009 and 2010, 20, 26, 58, 48 and 60 of our distributors, respectively, were granted credit for certain amount of facial mask products from us. The amount of credit granted to our distributors represents approximately 7.0%, 16.0%, 18.0%, 21.8% and 21.1%, respectively of our revenue for the same periods. We generally offer a credit term of 45 to 60 days to our retailers based on the size of their retail outlets, sales performance, credit history and estimated future purchases. As of 30 June 2007, 2008 and 2009 and 30 April 2010, our trade receivables turnover days were 38.9, 47.7, 71.4 and 59.8, respectively. We generally do not require

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collateral from our distributors and retailers to secure payment obligations. As our sales increase, the amount of trade receivables will inevitably increase. In addition, as we continue to develop the business relationship with our distributors and retailers, we may consider granting or increasing the amount of products that may be delivered to our distributors on credit at the beginning of the calendar year. If our distributors and retailers do not pay us for their purchases in a timely manner or at all, our business, financial condition and results of operations could be materially and adversely affected.

We may fail to continuously develop new products or our new products may not be successful

The skincare industry in Greater China is highly competitive and consumers are tempted to shift their choices and preferences whenever there are new products launched or introduced by various marketing and pricing campaigns of different brands. In light of the highly competitive and volatile environment, we will need to continuously develop and launch new and innovative products in order to respond to consumers' demand and maintain our competitiveness and market share. Whilst we have in the past successfully developed, promoted and achieved market acceptance for our new products, we cannot assure you that we will be able to continuously develop new products or our new products in the future will attract sufficient consumer demand or gain sufficient market share to be profitable. In addition, whilst we have adopted and will continue to adopt strict quality control procedures, we cannot assure you that our products in the future will continue to be of high quality. Failure to recover development, production and marketing costs of unsuccessful new products or maintain the high quality of our products in the future could adversely affect our market share, financial condition and overall profitability and financial performance.

Our brands and products may be subject to counterfeiting, imitation, and/or infringement by third parties

We rely on intellectual property laws in China and other jurisdictions to protect our trademarks, brands, outlook designs and other intellectual property rights. Our products have been subject to counterfeiting and imitation from time to time. We cannot give assurance that counterfeiting or imitation of our products will not occur in the future or, if it does occur, that we will be able to detect or address the problem in a timely manner and effectively. Any occurrence of counterfeiting or imitation of our products or other breaches of our intellectual property rights could negatively affect our reputation and brand names, lead to loss of consumer confidence in our brands, and, as a consequence, adversely affect our results of operations. Any litigation to prosecute infringements upon our intellectual property rights and products will be expensive and will divert the management's attention as well as other resources away from our business. We are not required, under the PRC laws to maintain, and we do not maintain any insurance coverage against litigation costs and would have to bear all costs arising from such litigation to the extent we are unable to recover them from the relevant parties. As a result, any such litigation could have a material adverse effect on our business, financial condition and results of operations.

Our success and business operations are largely dependent on certain key personnel and our ability to attract and retain talented personnel

Members of our senior executives and management have been responsible for the development of our Company and business and have been one of the key drivers of our strategies and achievements

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to date. The continued successful management of our business is, to a considerable extent, dependent on the services of our executives and senior management. In particular, we rely on the expertise and experiences of some of our executive Directors — Mr. Tang, Mr. She and Mr. Luo, who play vital roles in our operation. If one or more of our senior executives or management or other key employees are unable or unwilling to continue in their present positions, we may not be able to replace them promptly or at all, which may severely disrupt our business and affect our results of operations and future prospects.

Our future success is further dependent upon our ability to attract and retain personnel who have the necessary experience and expertise. Competition for qualified personnel in China is intense. If we cannot recruit and retain the employees necessary to maintain our operations, our capabilities may be limited, which could reduce our profitability and limit our ability to grow. In addition, the competition for qualified personnel in China may drive up our labour costs, in turn increasing our costs of operations and profitability. In such circumstances, our business, financial condition and results of operations may be materially and adversely affected.

Our success depends on the ability of our distributors and retailers to sell our products

We do not directly sell our products to consumers, and we depend on our distributors, who sell our products directly to retailers, and our retailers to sell our products to consumers. The sales performance of our distributors and retailers is therefore crucial to the future growth of our business and directly affects our success in our business. We cannot assure you that we will be able to maintain our good relationships with our distributors and retailers or continue the relationships on similar or more favourable terms with us. In the event of our failure to do so, our business, financial condition and results of operations could be materially and adversely affected.

Our distributors' and retailers' aggressive marketing of competitors' products may affect our results of operations and financial condition

We enter into distribution agreements and merchandise contracts with our distributors and retailers respectively to distribute and sell our products on a non-exclusive basis. Some of our distributors and all of our retailers may also sell skincare products of our competitors. As such, any aggressive marketing of our competitors' skincare products by our distributors or retailers may affect the sales performance of our products and as a result, our business, financial condition and results of operations may be materially and adversely affected.

Our brand image and business may be affected by our distributors' failure to comply with the geographical restriction and other requirements in the distribution agreements

We generally enter into standard distribution agreements with each of our distributors in China. Under the terms of our distribution agreements, each of our distributors is granted distribution rights over specific geographical areas. We currently do not have any sales representatives or salespersons to cover the points of sale in geographical areas that have not been authorised by us and do not actively promote and sell our products at points of sale in geographical areas not authorised by us in the distribution agreements. We also do not conduct inspections to monitor and ensure that our products are sold to consumers in accordance with our pre-set nationwide uniform retail prices and before the expiry

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dates of our products in geographical areas not authorised by us in the distribution agreements. In the event that any of our distributors fails to comply with the geographical restriction in the distribution agreements and sells our products in any geographic areas that have not been authorised by us or fails to comply with other requirements in the distribution agreements, our brand image and reputation can be materially and adversely affected. As a result, our business, financial condition and results of operations could be materially and adversely affected.

We may not be able to manage future rapid growth and our business and expansion of our operations may be affected

Our business and operations have grown rapidly over the last few years. Our revenue increased by 93.1% from HK\$130.9 million for the year ended 30 June 2007 to HK\$252.8 million for the year ended 30 June 2008 and by a further 48.2% for the year ended 30 June 2008 to HK\$374.6 million for the year ended 30 June 2009. Our revenue for the ten months ended 30 April 2010 was HK\$509.2 million. We intend to construct a new production facility in GHIDZ, promote new brands such as “It’s Skin” and “ICS”, develop and diversify our products, expand our sales channels, and enter into new markets outside China, such as Hong Kong, Macau, Taiwan and the south-east Asian region by selling directly to distributors and/or retailers located in these markets. Our fast business growth could put significant strain on our management and operational resources. Our ability to manage future growth will depend on our ability to effectively implement and improve management, operational and information systems on a timely basis and to expand, train, motivate and manage our workforce. We cannot give assurance that our personnel, systems, procedures and controls will be adequate to support our future growth. Failure to manage our expansion effectively may lead to increased costs, a decline in sales and reduced profitability, which could in turn have a material adverse effect on our business, financial condition and results of operations.

Our joint venture arrangement with Hanbul may fail to produce the benefits for which we entered into such partnership

In March 2010, we entered into the Magic-Hanbul JV Agreement under which, among others, we agreed to market, sell and/or distribute cosmetic and skincare products under the “It’s Skin” and “ICS” brands in Greater China. Please refer to the section headed “Business — Products — New products and new product series under development” in this prospectus. We believe such joint venture arrangement with Hanbul provides the opportunity to capture several benefits, including diversifying our skincare product range, expanding our product know-how and brand management expertise. However, there can be no assurance that we will be successful in realising all of the anticipated benefits of such joint venture arrangement. Furthermore, operations carried out under such joint venture arrangement involve numerous risks, including (i) the possibility that the cosmetic and skincare products under the “It’s Skin” and “ICS” brands will not be accepted by the market; (ii) the possibility that our partner may have economic or business objectives that are inconsistent with ours; and (iii) the possibility of our partner being unable or unwilling to fulfil its obligations under the Magic-Hanbul JV Agreement. There is no assurance that possible disagreements or disputes between us and Hanbul would not occur. Any failure to realise the anticipated benefits of our joint venture arrangement with Hanbul or manage the risks involved in such arrangement could have a material adverse effect on our business, financial condition and results of operations.

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We may encounter difficulties in expanding our distribution and retail network

As of 30 June 2007, 2008 and 2009, we had 24, 32 and 59 distributors and three, two and two retailers, respectively. As of 30 April 2010, we had 75 distributors and one retailer spread over 21 provinces, two autonomous regions, and four municipalities in China. As of 30 April 2010, our products were distributed by our distributors to 3,330 points of sale in China. We intend to continuously expand our distribution and retail network to grow our business by expanding further into second and third-tier cities in China. We are also planning to further expand our market coverage outside China to Hong Kong, Macau, Taiwan and the south-east Asian region by selling directly to distributors and/or retailers located in these markets within the next two to three years. However, the success of our expansion plan is subject to many factors, including (i) the existence and availability of suitable regions and locations for expansion of our distribution and retail network; (ii) the availability of suitable distributors and retailers; (iii) our ability to negotiate favourable cooperation terms with our distributors or retailers; (iv) the availability of adequate management and financial resources; (v) our ability to hire, train and retain skilled personnel; (vi) the adaptation of our logistics and other operational and management systems to an expanded distribution and retail network; and (vii) compliance with the applicable regulatory requirements in different regions or jurisdictions. Accordingly, we cannot give assurance that we will be able to achieve our expansion goals or effectively integrate any new distributors and retailers into our existing network. We also cannot give assurance that we will achieve market acceptance for our products in any new markets to which we introduce our products. If we encounter difficulties in expanding our distribution and retail network, our growth prospects may be limited, which could in turn have a material adverse effect on our business, financial condition and results of operations.

Third parties may assert or claim that we have infringed their intellectual property rights

Intellectual property rights, such as trademarks and outlook designs, are important in the consumer products industry as they protect brand images and other valuable rights. Our competitors or other third parties may have intellectual property rights and interests which could potentially come into conflict with ours. If any trademark or outlook design infringement or other intellectual property claims against us are successful, we may not have a legal right to continue to develop, produce, use or sell products that are adjudicated to have infringed third parties' intellectual property rights. We may be legally required to expend significant resources to redesign our products so that they do not infringe third parties' intellectual property rights or we may be required to obtain relevant licences to avoid further infringements. Intellectual property litigation against us could significantly disrupt our business, divert our management's attention as well as other resources away from our business. As a result, any intellectual property disputes could have a material adverse effect on our business, financial condition and results of operations.

We do not maintain a large volume of raw materials or packaging materials at our production facility and our production may be interrupted in case of late delivery or short supply of raw materials or packaging materials

We have limited warehousing space at our production facility in the Panyu District, Guangzhou, PRC and do not maintain a large volume of raw materials or packaging materials at the facility. We purchase raw materials and packaging materials from suppliers regularly, thus eliminating the need to store a large volume of raw materials and packaging materials at our production facility. We source all

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of our raw materials and packaging materials from suppliers located in Guangdong province in the PRC. In addition, we generally maintain at least two suppliers for each type of raw material and packaging material at any time and generally enter into framework supply contracts with a term of one year with them. During the Track Record Period, we have not experienced any material interruptions to the production due to delays in delivery of raw materials and packaging materials. However, we cannot give assurance that our suppliers will continue to deliver raw materials and packaging materials to us in a timely manner or at all. If we do not have adequate raw materials or packaging materials at our production facility as a result of late delivery or short supply, our production may be interrupted and our business, financial condition and results of operations may be materially and adversely affected.

Our results of operations could be adversely affected by any change in fair value of the derivative component of the Shares issued to the First Strategic Investors

On 10 November 2009, Hua Han, Magic Holdings and the First Strategic Investors entered into a share subscription and sale and purchase agreement in relation to the subscription of an aggregate of 1,739 shares of Magic Holdings by the First Strategic Investors and the sale and purchase of an aggregate of 1,887 shares of Magic Holdings held indirectly by Hua Han through Queenherb. Pursuant to such agreement, each of the subscription price and the purchase price is subject to adjustment. Moreover, the First Strategic Investors shall be entitled to exercise a put option on occurrence of any one of the events of default contained therein. Please also refer to the section headed “History, Reorganisation and Corporate Structure — Strategic Investment” for further details. On issuance of our Shares to the First Strategic Investors, the fair value of the derivative component of the Shares was determined based on valuation, and this amount was and will be carried as a derivative component of a liability until extinguished upon the fulfilment of the conditions contained in such agreement. The subscription price adjustment and the put option are expected to be no longer applicable upon Listing. The derivative component of the Shares will be remeasured at the end of each reporting periods and any gains or losses arising from the change in fair value will be recognised in our income statement. For the three years ended 30 June 2007, 2008 and 2009 and the ten months ended 30 April 2009 and 2010, fair value gain on our derivative financial instruments amounted to nil, nil, nil, nil and HK\$14.1 million. In the event of any change in fair value of the derivative component of our Shares, our financial condition and results of operations could be materially and adversely affected.

We rely on the continuity of our existing processing arrangement with GZCCL

In September 2008, we entered into a processing agreement with GZCCL (which was supplemented by another agreement in March 2010) under which we agreed to pay a processing fee of RMB360,000 per year for GZCCL to manufacture peel-off and wash-off facial mask products for us on an exclusive basis until 31 December 2011. Under such arrangement, we shall provide raw materials and packaging materials to GZCCL for the production of these products and may also send our technical staff from time to time to GZCCL to monitor the production process to ensure that the products meet our quality standards at our own cost. The arrangement can be terminated by either party with 90 days prior written notice. For the three years ended 30 June 2007, 2008 and 2009 and the ten months ended 30 April 2009 and 2010, the percentages of our products that were manufactured by GZCCL by volume were approximately nil, nil, 11.5%, nil and 40.7%. Please refer to the section headed “Business —

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Production” in this prospectus for further details. There is no assurance that we would be able to renew and continue such processing arrangement or seek new processing arrangement to replace expired processing arrangement on similar or more favourable terms. In the event of our failure to do so, our business, financial condition and results of operations could be materially and adversely affected.

We rely on an Independent Third Party employment agency to provide contract staff for our sales and promotional activities and we may be jointly liable for the employment agency’s failure to comply with applicable labour laws

We engage a substantial number of salespersons and sales representatives through an employment agency, which is an Independent Third Party, on an as-needed basis to assist our local sales and promotional activities throughout China. We entered into an agreement with this employment agency to provide these contract staff for our local sales and promotional activities throughout China. Please refer to the sections headed “Business — Employees” and “Business — Distribution and retail network — Sales team” in this prospectus for further details. Since these contract staff are not directly employed by us, we do not have direct control over them. If any of these contract staff fail to operate in accordance with our business guidelines, our market reputation, brand image and results of operations could be materially and adversely affected.

In addition, since we depend on the employment agency to meet our staffing requirements, we rely on them for the performance of their respective obligations under our agreement with them and in accordance with all applicable laws in the PRC. Our PRC legal adviser has advised us that this Independent Third Party employment agency holds the relevant valid permits to operate and that the relevant agreements signed by us with the employment agency in relation to labour outsourcing are legal and effective. Nevertheless, under the PRC Labour Contract Law (勞動合同法), which became effective on 1 January 2008, we may be jointly liable for the employment agency’s failure to comply with all applicable labour laws relating to the contract staff provided to us. Accordingly, if the employment agency violates any relevant requirements under the applicable PRC labour laws or otherwise, we may incur legal liability and our business, financial condition and results of operations could be materially and adversely affected.

One of our leased properties lacks the requisite building ownership certificate and we may be required to relocate our production facility

As of the Latest Practicable Date, we leased a building with a gross floor area of approximately 509.6 square metres in the Panyu District, Guangzhou, PRC as our production facility. For the three years ended 30 June 2007, 2008 and 2009 and the ten months ended 30 April 2009 and 2010, the percentages of our products that were manufactured at our production facility by volume were approximately 100%, 100%, 88.5%, 100% and 59.3%, respectively. We have been advised by our PRC legal adviser that the landlord of such leased property has not yet obtained or produced to us the building ownership certificate nor has it registered the relevant lease with the government authorities. We cannot assure you that no third party will seek to assert their ownership rights against the landlord or challenge the lease in the future. Should dispute arise due to title encumbrances on such property or the landlord’s failure to register the relevant lease with the government authorities, we may encounter difficulties in our continued leasing of such property. In this event, we will be required to relocate our production facility, resulting in business interruption and additional relocation costs. Furthermore, we may not be able to find

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suitable alternative premises or have to relocate to less desirable locations before construction of our new production facility in GHIDZ is completed. If any of these events occurs, our business, financial condition and results of operations could be materially and adversely affected. Please also refer to the section headed “Business — Real Estate” for further details.

We have not paid certain housing provident fund contribution for and on behalf of our employees and we may be subject to the imposition of fines or penalties

We have not paid certain past housing provident fund contributions for and on behalf of our employees due to inconsistent implementation or interpretation by local authorities in the PRC and different levels of acceptance of the social security system by employees. For the three years ended 30 June 2007, 2008 and 2009 and the ten months ended 30 April 2010, the amount of unpaid housing provident fund contribution for our employees is estimated to be approximately HK\$42,000, HK\$100,000, HK\$158,000 and HK\$154,000. No provision for these amounts was made during the Track Record Period. We cannot assure you that we will not be required to pay such past contributions in the future. As advised by our PRC legal adviser, we may be ordered to pay such housing provident fund contributions within a stipulated deadline by the relevant PRC authorities. Any judgment or decision against us in respect of outstanding housing provident fund contributions could have an adverse effect on our reputation, cash flow and results of operations.

We may be subject to fines or other penalties if we fail to develop our land according to the terms of the land grant contract

On 18 January 2010, we signed a land grant contract with the local government in Guangzhou, PRC to acquire the appropriate land use rights for a parcel of land with a site area of approximately 19,906.0 square meters at GHIDZ where our new production facility will be located. According to the land grant contract, if we fail to commence development of the land before the commencement date stipulated in the land grant contract, we shall be subject to penalty equal to 0.1% of the land grant fee for each day the land remains idle. Further, according to the current PRC laws and regulations, if we fail to commence development of a land for more than one year from the commencement date stipulated in the land grant contract, the relevant PRC authority may serve a warning notice and impose a land idle fee on the land of up to 20% of the land premium of RMB11,950,000; and if we fail to commence development for more than two years, the land is subject to reclamation by the PRC government unless the delay in development is caused by government actions or force majeure. Under our land grant contract with the local government in Guangzhou, PRC, we are required to commence development of the land at GHIDZ before 21 July 2010. We have revised the construction schedule of our new production facility at GHIDZ and have applied to the relevant PRC authority to extend the commencement date of development to April 2011. We cannot assure you that such application for extension will be approved by the relevant PRC authority, or that there will be no significant delay in the commencement of construction or the development of our land in the future, or that our land will not be subject to any penalty or be taken back by the government as a result of such delay. The imposition of substantial penalties or reclamation by the government could have a material and adverse effect on our business, financial condition and results of operations.

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Our operations may be affected by any prolonged business interruption at our production facility

Some of our products are manufactured at our production facility located in the Panyu District, Guangzhou, PRC. As such, any material interruption at our production facility could reduce our sales and earnings for the affected period. There is no assurance that we will always have access to sufficient supply of electricity or water in the future to accommodate our production requirements and planned growth at our production facility. Power interruptions, electricity shortages, water shortages, weather conditions or government intervention, particularly in the form of power rationing, are factors that could affect our daily operations and production. If there is any insufficient supply of power or electricity or water to satisfy our production requirements, we may need to limit or delay our production, which could materially and adversely affect our business, financial condition and results of operations.

Our insurance coverage may not completely cover the risks related to our business and operations

Natural disasters, acts of war, terrorist acts, political unrest and epidemics, or other events which are beyond our control, may adversely affect our business, financial condition and results of operations. We may bear the risk of loss of raw materials or finished products in transit. We may also face the risk of loss or damage to our properties, machinery and inventories due to the occurrence of any of the above events. Furthermore, we are subject to hazards and risks that are normally associated with our operations. Our substantial production activities are conducted at our production facility located in the Panyu District, Guangzhou, PRC. Our products are produced, packaged and stored at the same location. Our operations are subject to interruption or damage by fire, power failure and power shortages, hardware and software failure, floods, natural disasters and other events beyond our control at our production facility. As a result, any interruption could seriously compromise our production activities, and our business, financial condition and results of operations may be materially and adversely affected. We may also face exposure to product liability claims in the event that any of our products are alleged to have resulted in harmful adverse effects. We cannot give assurance that our insurance policies are sufficient to cover all the risks associated with our operations. In particular, we are not required under PRC law to maintain, and we do not maintain any product liability, third party liability or business interruption insurance in the PRC. Losses incurred for liabilities not covered by our insurance policies may have a material and adverse effect on our business, financial condition and results of operations.

We are a holding company that relies heavily on dividend payments from our subsidiaries for funding

Our Company is a holding company incorporated in the Cayman Islands. We operate our business primarily through our subsidiaries in China. Therefore, the availability of funds to enable us to pay dividends to our Shareholders and to service our indebtedness depends upon dividends received from these subsidiaries. If our subsidiaries incur indebtedness or losses, such indebtedness or losses may impair their ability to pay dividends or other distributions to us. As a result, our ability to pay dividends and to service our indebtedness will be restricted. PRC laws require that dividends be paid only out of net profit calculated according to PRC accounting principles and regulations, which differ in many respects from generally accepted accounting principles in other jurisdictions, including HKFRSs. PRC laws also require enterprises incorporated in China to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends. In addition,

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restrictive covenants in bank credit facilities or other instruments or agreements that our subsidiaries may enter into in the future may also restrict the ability of our subsidiaries to make contributions to us and hence, our ability to receive distributions. Therefore, these restrictions on the availability and usage of our major source of funding may impact our ability to pay dividends to our Shareholders and to service our indebtedness.

RISKS RELATING TO OUR INDUSTRY

We face competition from other international brands, which may affect our market share and profit margins

We had the largest market share of 15.1% in the facial mask industry in China in 2009 in terms of retail sales according to the CTR Reports. However, the skincare industry in China is highly competitive and we expect it to become even more competitive. Some of our competitors, in particular the international brands, may have been in business longer than we have and may have substantially greater financial, research and development and other resources than we have. We cannot assure you that our current or potential competitors will not provide products comparable or superior to those we provide or adapt more quickly than we do to evolving industry trends or changing market preferences and requirements or consumer spending habits. It is also possible that there will be consolidation in the skincare industry among our competitors or alliances may develop among competitors and these alliances may rapidly acquire significant market share.

Furthermore, competition may lead competitors to increase substantially their advertising expenditures and promotional activities or to engage in irrational or predatory pricing behaviour. We also cannot assure you that third parties will not actively engage in activities, whether legal or illegal, designed to undermine our brands and product quality or to influence consumer perceptions of or consumer confidence in our products. Increased competition may result in price reductions, reduced margins and loss of market share, any of which could have a material adverse effect on our profit margins. We cannot assure you that we will be able to compete effectively against current and future competitors.

We require various licences and permits to operate our business and the loss of or failure to obtain or renew any or all of these licences and permits could adversely affect our business

In accordance with the PRC laws and regulations, we are required to obtain and maintain various licences and permits in order to commence and operate our business at our production facility including, without limitation, hygiene permits and production permits. We are required to comply with applicable health and hygiene and production safety standards in relation to our production processes. Our products are subject to regular and random inspections for compliance by the relevant hygiene authority and quality and technology supervision administration. Failure to pass these inspections, or the loss of or failure to obtain or renew our licences and permits, could require us to temporarily or permanently suspend our production facility, which could disrupt our operations and our business, financial condition and results of operations could be materially and adversely affected.

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Changes in existing laws and regulations may cause us to incur additional costs to comply with more stringent rules, which could slow down our product development efforts and limit our growth and development

We are subject to various laws and regulations relating to cosmetic products and general consumer protection and product safety in the jurisdictions in which we sell our products. In particular, we are subject to laws and regulations in the PRC, where all our products are produced and substantial quantities of our products are sold. For example, the Administrative Regulations on Cosmetic Labelling (化妝品標識管理規定) promulgated on 27 August 2007 has set out new requirements for producers of cosmetic products with respect to the information required and/or prohibited in a product label. Specifically, a producer is required to provide detailed information about the place where the product is produced, the name and address of the producer, production date, expiry date and batch number, details of applicable industry or state standards, quality inspection certificate and product licence number. Under this new regulation, the label must not contain any information claiming or implying any medical or therapeutic effects. We have received confirmation from the Administration of Quality and Technology Supervision of Guangzhou (廣州市質量技術監督局), the local government authority responsible for implementing this product labelling law, that we have not been punished due to issues related to product quality. Likewise, we have not received any penalty due to violation of this labelling law as of the Latest Practicable Date. However, given the short history of this new law, it remains unclear whether any of our product labels are in violation of the law. If we are determined by the relevant government authorities to be in violation of this law in the future, we may be ordered to rectify such violation within a specific period of time. If we fail to rectify in a timely manner, a fine will be imposed on us. We cannot give assurance that we will not have to redesign our product packaging, print new labels or take other necessary actions to comply with this new regulation or other similar laws and regulations should the relevant government authorities determine us to be in violation of the law. Other laws and regulations in the PRC also change from time to time. As a result, we may incur additional costs and our business growth and development may slow down due to resources we have to spend on complying with these laws and regulations.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

The PRC's economic, political and social conditions, as well as governmental policies, could affect the financial markets in China, our liquidity and access to capital and our ability to operate our business

We conduct all of our business in China and plan to continue to expand our business into new geographical areas in China. Accordingly, our business, financial condition and results of operations are subject to economic, political and legal developments in China. China's economy differs from the economies of developed countries in many respects, including the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. While the PRC economy has experienced significant growth in the past 30 years, growth has been uneven across different regions and among various economic sectors of China. The PRC government has implemented various measures to encourage economic development and guide the allocation of resources. Some of these measures benefit the overall PRC economy but may have a negative effect on us. For example,

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our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us. More generally, if the business environment in China deteriorates from the perspective of domestic or international investors, our business may also be adversely affected.

Future changes in laws, regulations or enforcement policies in China could adversely affect us

Laws, regulations or enforcement policies in China, including those regulating the skincare industry, are evolving and subject to frequent changes. Further, regulatory agencies in China may periodically, and sometimes abruptly, change their enforcement practices. Therefore, prior enforcement activity, or lack of enforcement activity, is not necessarily predictive of future actions. Any enforcement actions against us could have a material and adverse effect on us and the market price of our Shares. In addition, any litigation or governmental investigation or enforcement proceedings in China may be protracted and may result in substantial cost and diversion of resources and management attention, negative publicity, damage to our reputation and a decline in the price of our Shares.

Uncertainties with respect to the PRC legal system could materially and adversely affect us

PRC laws and regulations govern our operations in China. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, China has not developed a fully integrated legal system and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their non-binding nature, the interpretation and enforcement of these laws and regulations involve uncertainties. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until some time after the violation. In addition, any litigation in China, regardless of outcome, may be protracted and result in substantial costs and diversion of resources and management attention.

Restriction of payment of dividends under PRC law and the tax exemptions on dividends received by the Company and the Shareholders may be affected by the new Enterprise Income Tax Law (企業所得稅法)

Under PRC laws, dividends may be paid only out of distributable profits. Distributable profits with regard to the subsidiaries of the Company incorporated in the PRC means their after tax profits as determined under the generally accepted accounting principles in the PRC, less any recovery of accumulated losses and allocations to statutory funds that it is required to make. Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years. The calculation of distributable profits under generally accepted accounting principles in the PRC differs in many aspects from the calculation under HKFRSs. As a result, a subsidiary of the Company incorporated in the PRC may not be able to pay any dividend in a given year to the Company if it does not have

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distributable profits as determined under the generally accepted accounting principles in the PRC, even if it has profits for that year as determined under HKFRSs. Accordingly, since the Company derives all of its profits from its subsidiaries, it may not have sufficient distributable profits to pay dividends to its Shareholders, even if there is such an amount as shown in its accounts prepared under HKFRSs.

In addition, the Company was incorporated under the laws of the Cayman Islands. The new Enterprise Income Tax Law (企業所得稅法) and its implementation rules stipulate that if an entity is deemed to be a non-PRC resident enterprise that does not have an establishment or place of business in the PRC or that has an establishment or place of business in the PRC but the relevant income is not effectively connected with such establishment or place of business, withholding tax at the rate of 10% will be applicable to any dividends paid to it by its PRC subsidiary, unless it is entitled to reduction or elimination of such tax, including by tax treaties.

Moreover, the new law provides that, if an enterprise incorporated outside the PRC has its “de facto management organisation” located within the PRC, the enterprise may be recognised as a PRC resident enterprise and thus may be subject to an enterprise income tax at the rate of 25% on its worldwide income. Substantially all of the Group’s management team members are residing in the PRC. If most of them continue to reside in the PRC, the Company may be deemed a PRC resident enterprise and therefore subject to the PRC enterprise income tax at a rate of 25% on its worldwide income, which excludes the dividends received directly from another PRC resident enterprise. If it does, the Company’s distributable profits may be adversely affected.

Dividends payable by us to our investors and gains on the sale of our Shares may become subject to withholding taxes under PRC tax laws

Under the new Enterprise Income Tax Law (企業所得稅法) and implementation regulations issued by the State Council, PRC income tax at the rate of 10% is applicable to dividends payable to investors that are “non-resident enterprises” (and that do not have an establishment or place of business in the PRC or that have an establishment or place of business but the relevant income is not effectively connected with the establishment or place of business) to the extent such dividends have their sources within the PRC. Similarly, any gain realised on the transfer of shares by such investors is also subject to 10% PRC income tax if the gain is regarded as income derived from sources within the PRC. If we are considered as a PRC “resident enterprise”, it is unclear whether the dividends we pay with respect to our Shares, or the gain investors may realise from the transfer of our Shares, would be treated as income derived from sources within the PRC and be subject to PRC tax. If we are required under the new Enterprise Income Tax Law (企業所得稅法) to withhold PRC income tax on our dividends payable to our foreign Shareholders, or if investors are required to pay PRC income tax on the transfer of their Shares, the value of their investment in our Shares may be materially and adversely affected.

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Changes in foreign exchange regulations may adversely affect our business, financial condition and results of operations

We receive almost all of our revenues in Renminbi, which is not freely convertible into other currencies. As a result, any restriction on currency exchange may limit the ability of our subsidiaries to use our revenue generated in Renminbi to pay dividends to us. Under existing foreign exchange regulations in the PRC, following completion of the Global Offering, our PRC subsidiaries may make payment of dividends without prior approval from SAFE by producing documents including but not limited to commercial documents evidencing dividend allocation, provided that they are processed through PRC banks licensed to engage in foreign currency transactions. The PRC government has stated publicly that it intends to make Renminbi freely convertible in the future. However, uncertainty exists as to whether the PRC government may restrict access to foreign currency for current account transactions if foreign currency becomes scarce in the PRC, in which case our ability to pay dividends or satisfy other foreign exchange requirements may be adversely affected.

PRC regulation of direct investment and loans by offshore holdings companies to PRC entities may delay or limit us from using the proceeds of the Global Offering to make additional contribution or loans to our PRC subsidiaries

Any capital contribution or loans that we, as an offshore entity, make to our PRC subsidiaries including from the proceeds of the Global Offering, are subject to PRC regulations. For example, any of our loans to our PRC subsidiaries cannot exceed the difference between the total amount of investment that our PRC subsidiaries are approved to make under relevant PRC laws and the registered capital of the relevant PRC subsidiary, and any such loans must be registered with the local branch of SAFE. In addition, our additional capital contributions to our PRC subsidiaries must be approved by the PRC Ministry of Commerce or its local counterpart. We cannot give assurance that we will be able to obtain these approvals on a timely basis, or at all. If we fail to obtain such approvals, our ability to make equity contribution or provide loans to our PRC subsidiaries or to fund their operations may be adversely affected, which could harm our PRC subsidiaries' liquidity and their ability to fund their working capital and expansion projects and meet their obligations and commitments.

It may be difficult to effect service of process upon us or our Directors who live in the PRC or to enforce against us or them judgments obtained from non-PRC courts

We are incorporated in the Cayman Islands. A number of our Directors reside in the PRC. Almost all of our assets and some of the assets of those Directors are located within the PRC. Therefore, it may not be possible for investors to effect service of process upon us or those persons inside the PRC. The PRC has not entered into treaties or arrangements providing for the recognition and enforcement of judgments made by courts of most other jurisdictions. On 14 July 2006, Hong Kong and the PRC entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned (the "**Arrangement**"), pursuant to which a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case according to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in the PRC. Similarly, a party with a final judgment rendered by a PRC court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in

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writing may apply for recognition and enforcement of such judgment in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it is not possible to enforce a judgment rendered by a Hong Kong court in China if the parties in dispute do not agree to enter into a choice of court agreement in writing. As a result, it may be difficult or impossible for investors to effect service or process against our assets or Directors in China in order to seek recognition and enforcement for foreign judgments in China.

Furthermore, the PRC does not have treaties or agreements providing for the reciprocal recognition and enforcement of judgments awarded by courts of the United States, the United Kingdom, or most other western countries or Japan. Hence, the recognition and enforcement in the PRC of judgments of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or even impossible.

We are subject to a wide variety of environmental regulations and any failure to comply with these regulations or to control the associated costs could harm our business

We are required to comply with various and extensive environmental, health and safety laws and regulations promulgated by the PRC government. If we fail to comply with these laws and regulations, we could be exposed to penalties, fines, suspension or revocation of our licences or permits to conduct business, administrative proceedings and litigation. Given the magnitude and complexity of these laws and regulations, compliance with them or the establishment of effective monitoring systems may be onerous or require a significant amount of financial and other resources. As these laws and regulations continue to evolve, we cannot give assurance that the PRC government will not impose additional or more onerous laws or regulations, compliance with which may cause us to incur significantly increased costs, which we may not be able to pass on to our distributors, our retailers or consumers. Such events could materially and adversely affect our business, financial condition and results of operations.

The enforcement of the PRC Labour Contract Law (勞動合同法) and other labour-related regulations in the PRC may adversely affect our business and our results of operations

On 29 June 2007, the National People's Congress of China enacted the Labour Contract Law (勞動合同法), which became effective on 1 January 2008. Compared to the Labour Law (勞動法), the Labour Contract Law (勞動合同法) establishes more restrictions and increases the cost to employers upon termination of employees, including specific provisions related to fixed-term employment contracts, temporary employment, probation, consultation with the labour union and employee general assembly, employment without a contract, dismissal of employees, compensation upon termination and overtime work and collective bargaining. According to the PRC Labour Contract Law (勞動合同法), unless otherwise provided therein, an employer is obligated to sign an unlimited term labour contract with an employee if the employer continues to employ the employee after two consecutive fixed term labour contracts after 1 January 2008. The employer also has to pay compensation to employees if the employer terminates an unlimited term labour contract. The employer is also required to pay compensation to any fixed term contract employees when the term of their employment contract expires, unless the employee voluntarily terminates the contract or rejects an offer to renew the contract in circumstances where the conditions offered by the employers are the same as or better than those

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stipulated in the original contract. Further, under the Regulations on Paid Annual Leave for Employees (職工帶薪年休假條例), which became effective on 1 January 2008, employees who have served more than one year with an employer are entitled to a paid vacation ranging from five to 15 days, depending on their length of service. Employees who waive such vacation time at the request of employers shall be compensated at three times their normal salaries for each waived vacation day. As a result of these new protective labour measures, our labour costs may increase. We cannot give assurance that any disputes, work stoppages or strikes will not arise in the future.

We may be subject to acts of God, acts of war and epidemics which are beyond our control and which may cause damage, loss or disruption to our business

Our business is subject to general economic and social conditions in China. Natural disasters, epidemics and other acts of God which are beyond our control may adversely affect the economy, infrastructure and livelihood of the people in the PRC. Some cities in the PRC are under the threat of flood, earthquake, sandstorm, snowstorm, fire or drought. For instance, a severe snowstorm hit southern China near the Yangtze River Delta in January and February of 2008, resulting in breakdown of transportation system in southern China and loss of agriculture products in the said areas. In May and June 2008, a serious earthquake and its successive aftershocks hit Sichuan province, resulting in tremendous loss of life and injury and destruction of assets in the region. In April 2009, a swine influenza broke out in Mexico and spread globally, resulting in loss of life and widespread fear. Our business, financial condition and results of operations may be adversely affected in a material respect if such natural disasters occur. Certain areas of China, including Guangdong province, are susceptible to epidemics, such as Severe Acute Respiratory Syndrome or swine or avian influenza. A recurrence of such epidemic, an outbreak of swine or avian influenza, or any epidemic, in Guangdong province or other areas of China, could result in material disruptions to our operations or a slowdown of China's economy, which could materially and adversely affect our business, financial condition and results of operations. Acts of war and terrorism may also injure our employees, cause loss of life, damage our facility, disrupt our distribution channels and destroy our markets, any of which could materially impact our sales, costs, overall financial condition and results of operations. The potential for war or terrorist attacks may also cause uncertainty and cause our business to suffer in ways that we cannot predict. Our business, financial condition and results of operations may be materially and adversely affected as a result.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no previous public market for our Shares, and an active trading market may not develop

Prior to the completion of the Global Offering, there has been no public market for our Shares. The Offer Price will be determined by the Sole Bookrunner (on behalf of the Underwriters) and us. The Offer Price may differ from the market price of our Shares after the Global Offering. We cannot give assurance the listing of our Shares on the Stock Exchange will result in the development of an active or liquid trading market for the Shares following the Global Offering or in the future or, if it does develop, that it will be sustained after the Listing or that the market price of our Shares will not decline below the Offer Price.

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Investors will experience dilution in pro forma net tangible book value because the Offer Price is higher than our net tangible book value per Share

Because the Offer Price of our Shares is higher than the net tangible book value per Share of our Shares immediately prior to the Global Offering, purchasers of our Shares in the Global Offering will experience an immediate dilution in pro forma combined net tangible book value to HK\$0.99 per Share (assuming an Offer Price of HK\$2.85, being the mid-point of our Offer Price range of HK\$2.40 to HK\$3.30 per Share).

The trading volume and share price of our Shares may fluctuate

The price and trading volume of our Shares may be highly volatile. Factors such as variations in our revenue, earnings and cash flow, changes in our pricing policy as a result of the presence of competitors, announcements of new technologies, strategic alliances or acquisitions, industrial or environmental accidents we may suffer, changes in our senior management personnel, changes in ratings by financial analysts and credit rating agencies, litigation, or fluctuations in the market prices for our products or raw materials could cause large and sudden changes in the volume and price at which our Shares will trade. In addition, the Stock Exchange and other securities markets have, from time to time, experienced significant price and volume fluctuations that are not related to the operating performance of any particular company. These fluctuations may also materially and adversely affect the market price of the Shares.

Our historical dividend policy do not indicate our future dividend policy

During the year ended 30 June 2009, our subsidiary Guangdong Qunhe declared to its then shareholders a dividend of HK\$47.4 million. Such dividend was paid before Listing. Save as disclosed above, no other dividends were declared or distributed by us or any of our subsidiaries during the Track Record Period. According to the Articles of Association, we may declare and pay dividends out of our distributable reserves. The amount of any dividends we may declare and pay will be subject to, amongst other things, the full discretion of our Directors and will depend upon our future operations and earnings, capital requirements and surplus, general financial condition and any other factors which our Directors may consider relevant. Accordingly, the amounts of distributions that we have declared and made in the past do not indicate the dividends that we may pay in the future.

Future sales, or perceived sales, of substantial amounts of our Shares in the public market could materially and adversely affect the prevailing market price of our Shares

Future sales by us or our Shareholders of substantial amounts of our Shares in the public market after the Global Offering could adversely affect market prices prevailing from time to time. Please refer to the section headed “Underwriting — Underwriting Arrangements and Expenses” in this prospectus for a more detailed discussion of restrictions that may apply to future sales of our Shares.

After these restrictions lapse, the market price of our Shares may decline as a result of future sales of substantial amounts of our Shares or other securities relating to our Shares in the public market, the issuance of new Shares or other securities relating to our Shares, or the perception that such sales or issuances may occur. This could also materially and adversely affect our ability to raise capital in the future at a time and at a price we deem appropriate.

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Investors may face difficulties in protecting their interests because we are incorporated under Cayman Islands law, and Cayman Islands law may provide different remedies to minority Shareholders when compared with the laws of Hong Kong and other jurisdictions

Our corporate affairs are governed by our Memorandum and Articles of Association and by the Companies Law and the common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority Shareholders differ in some respects from those established under statutes or judicial precedents in Hong Kong and other jurisdictions. Such differences may mean that the remedies available to our minority Shareholders may be different from those they would have under the laws of Hong Kong or other jurisdictions. Please refer to the section headed “Summary of the Constitution of the Company and Companies Law” in Appendix V to this prospectus.

Certain facts and statistics in this prospectus relating to the PRC, the PRC economy and the PRC skincare industry may not be reliable

Certain facts and statistics in this prospectus relating to the PRC, the PRC economy, the PRC skincare industry have been derived from various official government and other publications generally believed to be reliable. We believe that the sources of such information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. The information has not been independently verified by us, or any of our affiliates or advisers, or by the Sole Global Coordinator, the Sole Sponsor, the Underwriters, any other party involved in the Global Offering or their respective affiliates or advisers and therefore, no representation is given as to its accuracy. Due to possibly flawed or ineffective collection methods or discrepancies between government-published information and other market practice, these facts and statistics in this prospectus may be inaccurate or may not be comparable to facts and statistics produced with respect to other economies. Further, we cannot assure you that they are stated or compiled by the government on the same basis or with the same degree of accuracy as the case may be in other jurisdictions. Therefore, you should not unduly rely upon the facts and statistics from government official publications with respect to China, the PRC economy and the PRC skincare industry contained in this prospectus.

The initial trading price of the Offer Shares could be lower than the Offer Price

The Offer Price will be determined on the Price Determination Date. However, our Offer Shares will not commence trading on the Stock Exchange until the Listing Date, which is expected to be up to five business days after the Price Determination Date. As a result, investors may not be able to sell or otherwise deal in our Offer Shares during such period and thus are subject to the risk that the market price of our Offer Shares could fall before trading begins as a result of adverse market conditions or other adverse developments occurring during this period.

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We strongly caution you not to place any reliance on any information contained in press articles or other media regarding us and the Global Offering

Prior to the date of this prospectus, there has been press and media coverage regarding us and the Global Offering. Such press and media coverage included certain operational information, financial information, financial projections, valuations and other information about us that do not appear in this prospectus. There may continue to be additional press and media coverage on us and the Global Offering. We do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information appearing in publications other than this prospectus is inconsistent or conflicts with the information contained in this prospectus, we disclaim it and accordingly you should not rely on any such information. In making your decision as to whether to purchase our Shares, you should rely on the information included in this prospectus.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the Listing, we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules:

WAIVER FROM STRICT COMPLIANCE WITH RULE 4.04(1) OF THE LISTING RULES AND EXEMPTION FROM SECTION 342(1) OF THE COMPANIES ORDINANCE

Rule 4.04(1) of the Listing Rules requires that the accountants' report of the Company should include the consolidated results of the Group for each of the three financial years immediately preceding the issue of this prospectus, or such shorter period as may be acceptable to the Stock Exchange.

Similarly, section 342(1) of the Companies Ordinance stipulates that the Company should state the matters specified in Part I of the Third Schedule to the Companies Ordinance, and set out the reports specified in Part II of that Schedule. Paragraph 27 under Part I of the Third Schedule to the Companies Ordinance requires the Company to set out in this prospectus a statement as to the gross trading income or sales turnover (as may be appropriate) of the Company for the three financial years immediately preceding the issue of this prospectus. Paragraph 31 under Part II of the Third Schedule to the Companies Ordinance requires an inclusion of an accountants' report in respect of the Group's profits, losses, assets and liabilities for each of the three financial years, also immediately preceding the issue of this prospectus.

Pursuant to section 342A(1) of the Companies Ordinance, the SFC may issue, subject to such conditions (if any) as the SFC thinks fit, a certificate of exemption from compliance with any or all of the requirements of section 342(1) of the Companies Ordinance if, having regard to the circumstances, the SFC considers that the exemption will not prejudice the interest of the investing public and compliance with any or all of those requirements would be irrelevant or unduly burdensome, or is otherwise unnecessary or inappropriate.

An application has been made to the SFC for a certificate of exemption from strict compliance with paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance in relation to the inclusion of the accountants' report for the full financial year ended 30 June 2010 in this prospectus because it would be unduly burdensome and would inevitably delay the timetable of the Listing significantly as the financial statements would under such requirements be required to be audited up to 30 June 2010.

Our Company lodged the above application with the SFC accordingly. In this connection, a certificate of exemption has been granted by the SFC on the ground that strict compliance with paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance would be unduly burdensome. Such exemption is granted on the conditions that (i) particulars of the exemption be set forth in this prospectus; and (ii) this prospectus will be issued on or before 10 September 2010.

An application has also been made to the Stock Exchange for a waiver from strict compliance with Rule 4.04(1) of the Listing Rules and such waiver has been granted by the Stock Exchange on the conditions that (i) the Listing Date shall not be later than three months after the latest financial year-end of the Company, i.e. on or before 30 September 2010; (ii) Rule 8.06 of the Listing Rules is to be complied with, in that the latest financial period reported on by the reporting accountants of the Company as set

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

out in the accountants' report in Appendix I to this prospectus shall not end more than six months before the date of this prospectus; and (iii) the grant of a certificate of exemption from similar requirements under paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance by the SFC (which certificate has already been granted as set out in the immediately preceding paragraph). Our Directors are of the view that all information that is necessary for the public to make an informed assessment of the financial position of our Group has been included in this prospectus and that an exemption from compliance with the above accounting period requirements would not prejudice the interests of the investing public. Our Directors have confirmed that they have performed sufficient due diligence on our Group to ensure that up to the date of this prospectus, there has been no material adverse change in the financial and trading positions or prospects of our Group since 30 April 2010 and that there is no event since 30 April 2010 which would adversely and materially affect the information shown in the accountants' report of our Group as set forth in Appendix I to this prospectus. Our Directors have further confirmed that the reporting accountants have disclosed all material events which have arisen since 30 April 2010 under the section entitled "Subsequent Events" of the accountants' report of our Group as set forth in Appendix I to this prospectus. In addition, our Directors have confirmed that all material information that is necessary for the public to make an informed assessment of the financial results and financial position of our Group has been included in this prospectus.

MANAGEMENT PRESENCE IN HONG KONG

Waiver from strict compliance with Rule 8.12 of the Listing Rules

An application has been submitted to the Stock Exchange for a waiver from strict compliance with Rule 8.12 of the Listing Rules which requires a new applicant applying for a primary listing on the Main Board to have a sufficient management presence in Hong Kong. This normally means that at least two of the issuer's executive directors must be ordinarily resident in Hong Kong. Since the principal business operation and manufacturing facilities of the Group are located in Guangzhou, the PRC, the senior management team of our Group is and will continue to be based in the PRC.

At present, four out of five of our executive Directors and two out of three of our independent non-executive Directors are not ordinarily resident in Hong Kong. Further, our Directors consider that it would be practically difficult and not commercially feasible for our Company to appoint an additional Hong Kong resident as executive Director or to relocate any of the existing executive Directors to Hong Kong merely for the purpose of complying with Rule 8.12 of the Listing Rules. We do not have, and do not contemplate in the foreseeable future, that we will have sufficient management presence in Hong Kong for the purpose of satisfying the requirement under Rule 8.12 of the Listing Rules.

In this regard, the Stock Exchange has granted a waiver to our Company from strict compliance with the requirement under Rule 8.12 of the Listing Rules. In this respect, our Company has appointed two authorised representatives and an alternate authorised representative pursuant to Rule 3.05 of the Listing Rules, namely, Mr. Tang, our executive Director, Mr. Yan Kam Tong, our independent non-executive Director and the alternate authorised representative to Mr. Tang, and Ms. Ng Wing Yin, our company secretary, who will act as our principal channel of communication with the Stock Exchange. Each of Mr. Tang, Mr. Yan Kam Tong and Ms. Ng Wing Yin is ordinarily resident in Hong Kong. Each of the authorised representatives (including the alternate authorised representative) of the Company has confirmed that each of them will be available to meet with the Stock Exchange in Hong Kong within a reasonable time upon the request of the Stock Exchange and will be readily contactable by telephone,

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

facsimile and electronic means. Each of the authorised representatives (including the alternate authorised representative) will be provided means to contact all Directors promptly at all times as and when the Stock Exchange wishes to contact the Directors for any matters. Each of them is authorised to communicate on behalf of our Company with the Stock Exchange.

All of our Directors who are not ordinarily resident in Hong Kong have also confirmed that they possess valid travel documents to visit Hong Kong and will be able to meet with the relevant members of the Stock Exchange in Hong Kong within a reasonable period of time when required. Also, each of the Directors has furnished his mobile phone number, office phone number, e-mail address and fax number to the Stock Exchange should the Stock Exchange wish to contact any of the Directors.

In addition, our Company will retain a compliance adviser pursuant to Rule 3A.19 of the Listing Rules for the period commencing on the Listing Date and ending on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of the Company's financial results for the first full financial year after the Listing Date and it will act as an additional channel of communication of the Company with the Stock Exchange.

Furthermore, our Company shall also appoint other professional advisers (including legal advisers and accountants) after the Listing to assist our Company in dealing with any questions which may be raised by the Stock Exchange and to ensure that there will be efficient communication with the Stock Exchange.

CONTINUING CONNECTED TRANSACTIONS

Our Group has entered into the following transactions with our Connected Persons prior to, and which are expected to continue after, the Listing Date:

1. licensing of trade name by Hanbul to the MG JV Group;
2. licensing of trademarks by Hanbul to the MG JV Group;
3. licensing of trademarks by a wholly-owned subsidiary of Hanbul to the MG JV Group;
4. licensing of trademarks and outlook designs by Mr. She to our Group;
5. licensing of trademarks by Mr. Zhao Lizhi to our Group;
6. exclusive distribution of skincare and cosmetics products from Hanbul by the MG JV Group; and
7. sourcing of skincare and cosmetics products from Hanbul by our Group.

Further particulars about such transactions together with (where applicable) the application for a waiver from strict compliance with the relevant announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules are set out in the section headed "Connected Transactions" in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus contains particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules, Chapter 571V of the Laws of Hong Kong and the Listing Rules for the purpose of giving information to the public with regard to the Company. Our Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus. Having made all reasonable enquiries, our Directors confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive in any material respect, and there are no other matters the omission of which would make any statement in this prospectus misleading.

INFORMATION ON THE GLOBAL OFFERING

The Hong Kong Offer Shares and the Reserved Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorised to give any information in connection with the Hong Kong Public Offering or the Preferential Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by us, the Sole Global Coordinator, the Sole Sponsor, any of the Underwriters, any of their respective Directors, agents, employees or advisers or any other party involved in the Global Offering.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering and the Preferential Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering and the Preferential Offering, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering and the Preferential Offering. Details of the terms of the Global Offering are described in the section headed "Structure of the Global Offering" in this prospectus.

The Listing is sponsored by the Sole Sponsor. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Underwriting Agreement and the International Offering is fully underwritten by the International Underwriter under the terms of the Underwriting Agreement. The Hong Kong Public Offering and the International Offering (which includes the Preferential Offering) are subject to the agreement on the Offer Price between the Sole Bookrunner (on behalf of the Underwriters) and us on the Price Determination Date. For details of the Underwriters and the underwriting arrangements, please refer to the section headed "Underwriting" in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

RESTRICTIONS ON OFFER AND SALE OF OFFER SHARES

Each person acquiring the Hong Kong Offer Shares and the Reserved Shares will be required to, or be deemed by his/her acquisition of Hong Kong Offer Shares and the Reserved Shares to, confirm that he/she is aware of the restrictions on offers of the Hong Kong Offer Shares and the Reserved Shares described in this prospectus and that he/she is not acquiring, and has not been offered, any Hong Kong Offer Shares or Reserved Shares in circumstances that contravene any such restrictions.

No action has been taken in any jurisdiction other than Hong Kong to permit an offering of the Hong Kong Offer Shares and the Reserved Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Hong Kong Offer Shares and the Reserved Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue, the Offer Shares (including any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option), Shares to be issued pursuant to the Capitalisation Issue and any Shares which may be issued upon the exercise of any options to be granted under the Share Option Scheme. Dealings in our Shares on the Stock Exchange are expected to commence on or around 24 September 2010.

None of our Shares or loan capital are listed on or dealt in on any other exchange and no such listing or permission to list is being or proposed to be sought in the near future.

Under section 44B(1) of the Companies Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, our Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by the Stock Exchange.

SHARES WILL BE ELIGIBLE FOR CCASS

Subject to the granting of listing of, and permission to deal in, our Shares on the Stock Exchange and the compliance with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in our Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for our Shares to be admitted into CCASS. If you are unsure about the details of CCASS settlement arrangements and how such arrangements will affect your rights and interests, you should seek the advice of your stockbrokers or other professional advisers.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, holding or disposal of, and dealing in our Shares (or exercising rights attached to them). None of us, the Sole Global Coordinator, the Sole Sponsor, any of the Underwriters, any of their respective Directors or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to, our Shares.

REGISTER OF MEMBERS AND STAMP DUTY

Our Company's Hong Kong register of members will be maintained by our Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited in Hong Kong. The Company's principal register of members will be maintained by Butterfield Fulcrum Group (Cayman) Limited in the Cayman Islands.

Dealings in the Shares registered on the register of members of the Company in Hong Kong will be subject to Hong Kong stamp duty.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. Translated English names of Chinese laws and regulations, governmental authorities, institutions, natural persons, other entities or product names included in this prospectus and for which no official English translation exists are unofficial translations for your reference only.

PROCEDURE FOR APPLICATION FOR HONG KONG OFFER SHARES AND RESERVED SHARES

The procedure for applying for Hong Kong Offer Shares and Reserved Shares are set out in the sections headed "How to Apply for Hong Kong Offer Shares and Reserved Shares" and "Further Terms and Conditions of Hong Kong Public Offering and Preferential Offering" in this prospectus and in the relevant Application Forms.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus.

ROUNDING

Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
<i>Executive Directors</i>		
Mr. Tang Siu Kun Stephen (鄧紹坤先生)	Flat A, 21/F, Block 6, City Garden, North Point, Hong Kong	Chinese
Mr. She Yu Yuan (佘雨原先生) (formerly known as She Dan Dan (佘丹丹) and She Jing Yang (佘勁楊))	2/F, Rear Tower, No. 49 Xiu Quan Road, Xin Hua Town, Hua Du District, Guangzhou, the PRC	Chinese
Mr. Luo Yao Wen (駱耀文先生)	Room 501, No. 39, Gong He Road, Yue Xiu District, Guangzhou, the PRC	Chinese
Mr. Zhang Kun Mou (張昆謀先生)	Flat 602, No. 5 A10-2 Di Jing Chuan Shuo Jin Yang District Guangzhou City, the PRC	Chinese
Mr. Chen Lei (陳磊先生)	Room 5, 19/F Block C Wan Xiang International Building Zun Yi Road, Guiyang City Guizhou, the PRC	Chinese
<i>Independent non-executive Directors</i>		
Mr. Yan Kam Tong (甄錦棠先生)	Room 3704, Hong Keung Court, 23 Heng Lam Street, Lok Fu, Kowloon	Chinese
Prof. Dong Yin Mao (董銀卯教授)	Room 209, 7/F, Block Jia, 11 Fu Cheng Road, Hai Dian District, Beijing, the PRC	Chinese
Prof. Yang Rude (楊汝德教授)	Room 803, Building 20, West District 2, South China University of Technology, 381 Wu Shan Road, Tian He District, Guangzhou, the PRC	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED

Sole Global Coordinator, Sole Bookrunner, Sole Sponsor and Sole Lead Manager

BOCI Asia Limited
26th Floor, Bank of China Tower
1 Garden Road
Central
Hong Kong

Auditors and reporting accountants

Ernst & Young
Certified Public Accountants
18th Floor, Two International Finance Centre
8 Finance Street
Central
Hong Kong

Legal advisers to our Company

As to Hong Kong law:
Chiu & Partners
40th Floor
Jardine House
1 Connaught Place
Hong Kong

As to PRC law:
GFE Law Office
18th Floor, Guangdong Holding Tower
555 Dongfeng East Road
Guangzhou 510050
PRC

As to Cayman Islands law:
Conyers Dill & Pearman
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Legal advisers to the Underwriters

As to Hong Kong law:
Stephen Mok & Co. in association with
Eversheds LLP
Suites 2101-2106 & 2110, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

	<i>As to PRC law:</i> Jia Yuan Law Firm F408 Ocean Plaza 158 Fuxing Men Nei Avenue Xicheng District Beijing PRC
Property valuer	DTZ Debenham Tie Leung Limited 16th Floor, Jardine House 1 Connaught Place Central Hong Kong
Cayman Islands principal share registrar and transfer office	Butterfield Fulcrum Group (Cayman) Limited Butterfield House 68 Fort Street P.O. Box 609 Grand Cayman KY1-1107 Cayman Islands
Hong Kong branch share registrar and transfer office	Tricor Investor Services Limited 26/F, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Receiving banker	Bank of China (Hong Kong) Limited 1 Garden Road Hong Kong

CORPORATE INFORMATION

Registered address	Cricket Square Hutchins Drive PO Box 2681 Grand Cayman KY1-1111 Cayman Islands
Headquarter in the PRC	Room 1501-1504 Tianyi Plaza 644 Tongfu East Road Guangzhou Guangdong Province PRC
Principal place of business in Hong Kong	Unit 3405, 34/F China Merchants Tower Shun Tak Centre 168-200 Connaught Road Central Hong Kong
Website address	<u>www.magicholdings.co</u> ⁽¹⁾
Company secretary	Ms. Ng Wing Yin, <i>CPA</i>
Authorised representatives for the purpose of the Listing Rules	Mr. Tang Siu Kun Stephen (鄧紹坤先生) Flat A, 21/F, Block 6 City Garden, North Point Hong Kong Ms Ng Wing Yin Flat O, 9/F, 37 Kam Lam Street Mong Kok, Kowloon Hong Kong Mr. Yan Kam Tong (甄錦棠先生) (alternate to Mr. Tang Siu Kun Stephen (鄧紹坤先生)) Room 3704, Hong Keung Court 23 Heng Lam Street Lok Fu Kowloon
Authorised representative for purpose of Part XI of the Companies Ordinance	Ms. Ng Wing Yin Flat O, 9/F, 37 Kam Lam Street Mong Kok, Kowloon Hong Kong

CORPORATE INFORMATION

Audit committee

Mr. Yan Kam Tong (甄錦棠先生) (*Chairman*)
Prof. Dong Yin Mao (董銀卯教授)
Prof. Yang Rude (楊汝德教授)

Remuneration committee

Prof. Dong Yin Mao (董銀卯教授) (*Chairman*)
Mr. Yan Kam Tong (甄錦棠先生)
Mr. Tang Siu Kun Stephen (鄧紹坤先生)

Compliance adviser

Taifook Capital Limited
25th Floor, New World Tower
16-18 Queen's Road Central
Hong Kong

Principal bankers

Bank of China (Hong Kong) Limited
1 Garden Road
Central
Hong Kong

The Hongkong and Shanghai Banking Corporation
Limited
1 Queen's Road Central
Hong Kong

Note:

(1) *The information contained on the website of our Company does not form part of this prospectus.*

INDUSTRY OVERVIEW

We believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, any of the Underwriters or any of our or their respective directors, officers or representatives or any other party involved in the Global Offering and no representation is given as to its accuracy.

INTRODUCTION

Our Company primarily operates in the skincare industry in the PRC, with a particular focus on facial mask products. We believe the performance of the PRC skincare industry has been driven by a number of factors, including the growth of the Chinese economy and the increase in the urbanised population of China and such population's disposable income.

SOURCES OF THE INDUSTRY INFORMATION

We commissioned Kantar Worldpanel Limited, an Independent Third Party, to conduct an industry analysis of and produce the CTR Reports on, amongst other things, the Chinese facial mask industry for inclusion in this prospectus at an aggregate fixed fee of RMB600,000. Kantar Worldpanel Limited has over 40 years of industry experience and specialises in compiling of consumer panels for a wide range of consumers goods. The payment of such amount was not contingent on our successful listing or on any of the results provided by the CTR Reports. The CTR Reports were published in March 2010.

Kantar Worldpanel Limited, on behalf of itself, its subsidiaries and units, confirms that the CTR Reports were prepared in its ordinary course of business, and has given and not withdrawn its consent for us to quote from the CTR Reports and to use information contained in the CTR Reports in this prospectus.

To the best of the Directors' information and belief, the information contained in the CTR Reports is derived by means of data and intelligence gathering methodology which includes (i) government/regulatory sources, industry reports and analyst reports, and the database maintained by Kantar Worldpanel Limited; and (ii) primary research by conducting surveys with end-customers of facial masks in the PRC in relation to their daily consumption behaviour.

Certain other information and statistics set out in this prospectus are derived from the ZPI Report, which is published by Zero Power Intelligence Co., Ltd., an Independent Third Party. The ZPI Report was not commissioned by our Company. A fixed fee of RMB6,500 was paid by our Company to Zero Power Intelligence Co., Ltd. to obtain the ZPI Report. The ZPI Report was published in February 2010.

The ZPI Report was prepared after conducting numerous detailed market surveys and obtaining information received from domestic and international newspapers, journals and magazines published by entities such as National Bureau of Statistics of China (國家統計局), General Administration of Customs of the PRC (中國海關總署), Ministry of Commerce of the PRC (中國商務部), China National Commercial

INDUSTRY OVERVIEW

Information Centre (全國商業信息中心), China Association of Fragrance Flavor and Cosmetic Industries (中國香料香精化妝品工業協會), “China Cosmetics” (《中國化妝品》), Cosmetics Industry Information Network (化妝品行業信息網) and www.ChinaIRN.com (中國行業研究網), and information and data provided by research units of the cosmetics industry.

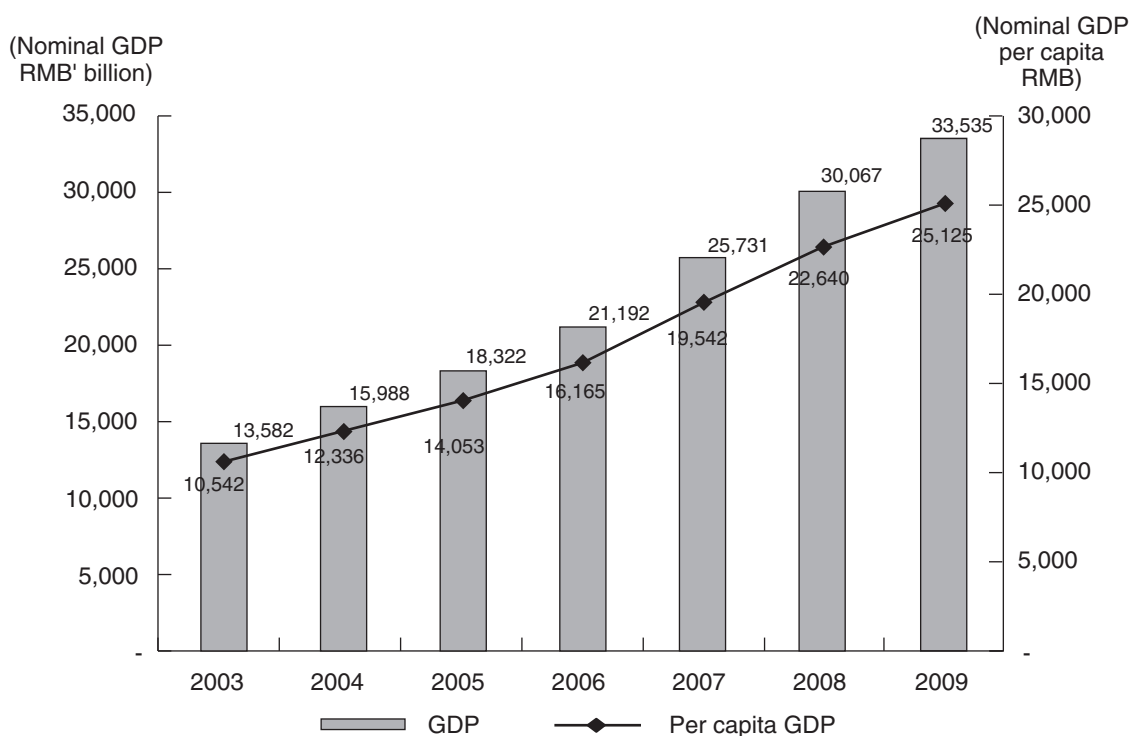
This prospectus contains some information extracted from the CTR Reports and the ZPI Report, and they are in the sections headed “Summary”, “Risk Factors”, “Industry Overview”, “Business” and “Financial Information.”

RAPID GROWTH OF THE CHINESE ECONOMY, URBANISATION AND INCREASING DISPOSABLE INCOME

Growth of the PRC economy

The PRC economy is one of the world’s fastest growing economies. According to the National Bureau of Statistics of China (國家統計局), the nominal GDP of China in 2009 was RMB33.5 trillion, representing a CAGR of 16.3% since 2003. From 2003 to 2009, the per capita GDP of China also increased from RMB10,542.0 to RMB25,125.0.

The following chart illustrates the growth in nominal GDP and per capita GDP of China from 2003 to 2008.



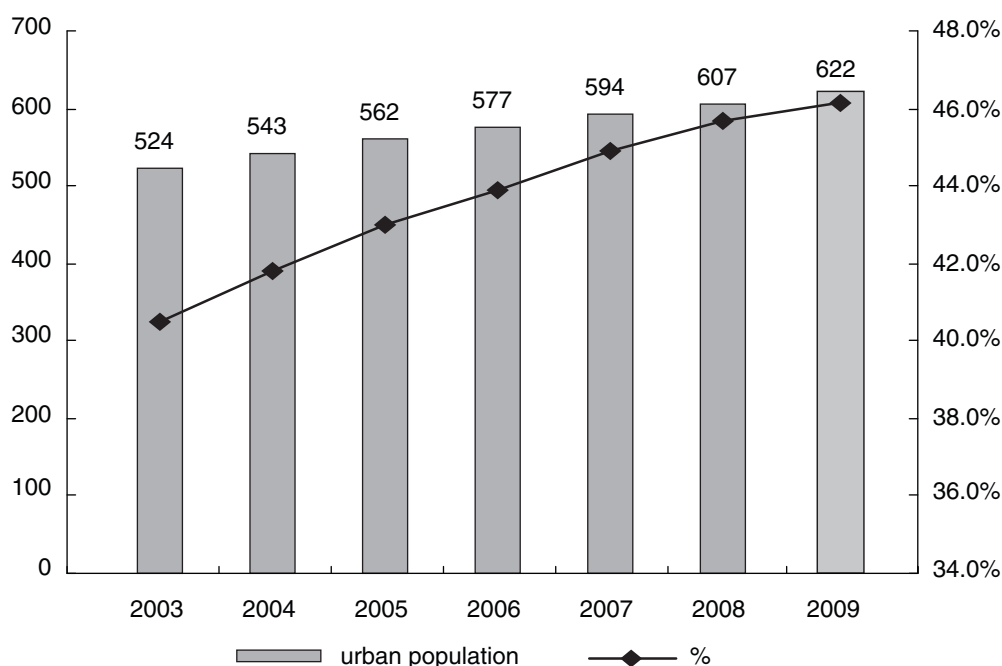
Source: National Bureau of Statistics of China (國家統計局)

INDUSTRY OVERVIEW

Accelerating urbanisation

With rapid economic growth in the PRC, urbanisation has intensified and the urban population has increased. According to the National Bureau of Statistics of China (國家統計局), the total urban population of the PRC increased from 524.0 million as of the end of 2003 to 622.0 million as of the end of 2009, representing an increase of 18.7%. In 2009, the urban population as a percentage of China's total population accounted for 46.6%.

The chart below sets out the growth in both total urban population and urban population as a percentage of the total population of the PRC from the end of 2003 to the end of 2009.



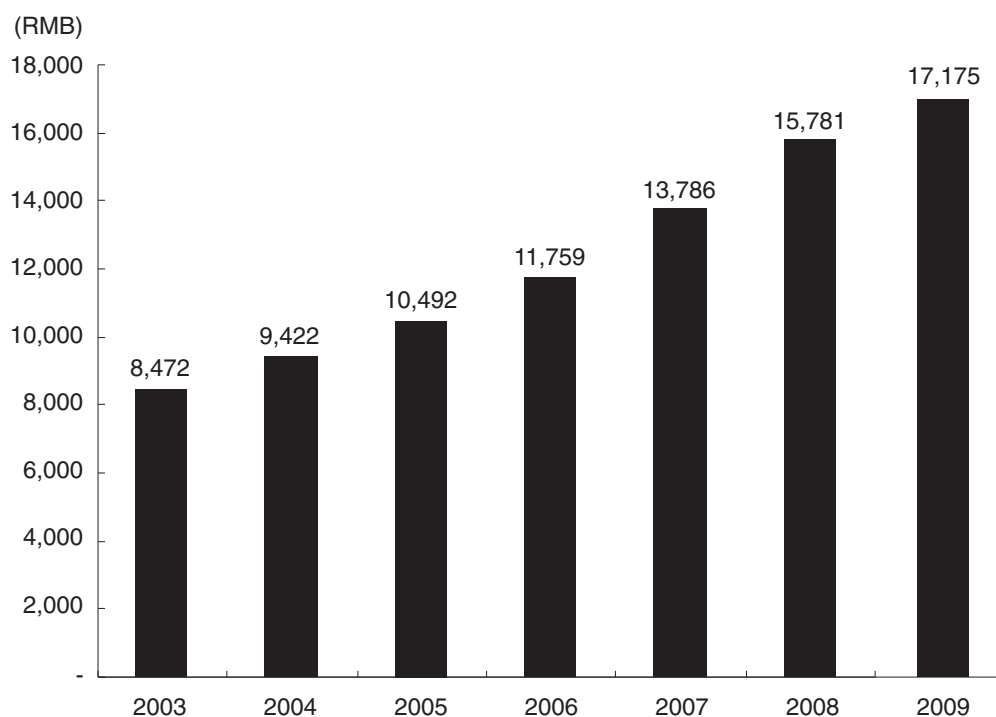
Source: National Bureau of Statistics of China (國家統計局)

Disposable income growth of urban and rural households

Strong economic growth and rapid urbanisation in the PRC have resulted in a larger labour force earning higher wages, which has in turn boosted the disposable income of Chinese households. According to the National Bureau of Statistics of China (國家統計局), from 2003 to 2009, the per capita annual disposable income for urban households increased from RMB8,472.0 to RMB17,175.0, representing a CAGR of 12.5%. During the same period, the per capita annual net income of rural households in China increased from RMB2,622.0 to RMB5,153.0, representing a CAGR of 11.9%. These figures demonstrate that the purchasing power of Chinese consumers is growing rapidly.

INDUSTRY OVERVIEW

The following chart illustrates the growth of per capita annual disposable income for urban households in China from 2003 to 2009.

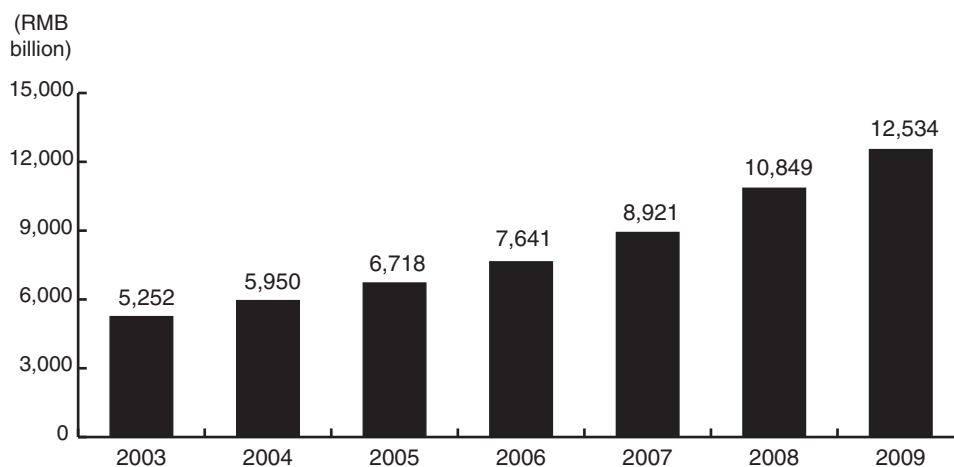


Source: National Bureau of Statistics of China (國家統計局)

China's increasing urbanisation and per capita annual disposable income of urban households have contributed to the rapid growth in demand for consumer products in the PRC. Retail sales of consumer goods in the PRC increased from RMB5.3 trillion in 2003 to RMB12.5 trillion in 2009, representing a CAGR of 15.6% over this six-year period.

INDUSTRY OVERVIEW

The chart below illustrates the increase in the value of total retail sales of consumer goods in the PRC between 2003 and 2009.



Source: National Bureau of Statistics of China (國家統計局)

Key drivers of growth in the PRC's retail industry

With a population of over 1.3 billion people in 2009 according to the National Bureau of Statistics of China (國家統計局), including over 622.0 million urban residents, the PRC has the largest number of potential retail consumers in the world and those born between 1980 and 1990 are expected to be a large driver of consumption in China in the next decade as they have grown up amongst rising consumerism. As nominal per capita GDP has experienced significant growth in the PRC and consumers have become more affluent, they have been increasingly directing their income towards purchasing lifestyle-enhancing products and services such as entertainment, leisure, technology, apparel and skincare. Further, as China's economy continues to grow, a greater number of its population will be able to become active retail consumers. We believe this change in consumer population size and preference in the PRC will result in a gradually expanding target consumer base for us as consumers become increasingly driven by brand image, product design and style over price and functionality.

INDUSTRY OVERVIEW

THE SKINCARE INDUSTRY IN THE PRC

The PRC skincare industry has experienced substantial growth in recent years due to the urban population's increased affluence and a gradual change in grooming practices, with consumers becoming increasingly concerned with their personal appearance according to the CTR Reports. According to the ZPI Report, total sales of skincare products in the PRC increased from RMB67.0 billion in 2007 to RMB96.0 billion in 2009, representing a CAGR of 19.7%. The retail sales of consumer goods in the PRC increased from RMB8.9 trillion in 2007 to RMB12.5 trillion in 2009, representing a CAGR of 18.5%. The ZPI Report estimates that total sales of skincare products in China will continue to grow at a CAGR of 15% to reach RMB150.0 billion to RMB200.0 billion by 2015.

The table below illustrates the growth in value of skincare product sales in the PRC from 2006 to 2009.

<u>Year</u>	<u>Total sales of skincare products</u>	<u>Annual growth</u>
	<u>(RMB' billion)</u>	<u>(%)</u>
2006	54.6	27.6
2007	67.0	22.7
2008	81.2	21.2
2009	96.0	18.2

Source: the ZPI Report

Skincare product sales accounted for 56% and represented the largest share of total sales in the cosmetics industry in China in 2009, according to the ZPI Report.

THE FACIAL MASK INDUSTRY IN THE PRC

The facial mask industry in the PRC

According to the ZPI Report, facial mask sales in China grew at a CAGR of 31.0% between 2001 and 2007, the highest of all industries within the skincare industry in China for this period. Between 2007 and 2009, facial mask sales in China grew from RMB2.6 billion to RMB4.5 billion, representing a CAGR of 31.6%, outpacing the growth rate of a CAGR of 19.7% for the skincare industry as a whole for the same period. Facial mask sales are expected to continue to rise further to RMB10.6 billion by 2012.

The CTR Reports indicate that the penetration rate for facial masks in China was only 17.7% in 2009. If this figure is compared to the 83.7% penetration rate of facial skincare products (excluding facial masks) in China, it appears that there exists significant potential for growth in the facial mask industry in China as facial masks are increasingly accepted as part of individuals' skincare routines.

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According to the CTR Reports, peel-off facial masks are dominant in the facial mask industry in China, with total peel-off facial mask retail sales in 2009 representing 62.8% of total facial mask retail sales in China during the same period. Wash-off facial masks, in comparison, accounted for the remaining 37.2%.

As is the case with skincare products in China, the average consumer of facial masks in China belongs to a relatively high income bracket, with approximately 50.8% having household incomes in excess of RMB4,000 per month in 2009 according to the CTR Reports.

The table below illustrates the rankings of the top international and domestic brands of facial mask products sold in the PRC in terms of retail sales in 2009.

Market position in 2009	Brand	Market share in 2009 (%)
1	美即 	15.1
2	Olay (玉兰油)	10.0
3	Doctor Li (李醫生)	6.4
4	Sinoway (相宜本草)	3.5
5	Tayoi (東洋之花)	2.9

Source: the CTR Reports

The increasing affluence of the country's population meaning that more and more people will become able to purchase facial masks. As a result of the increasing entrenchment of facial masks in individuals' skincare routines in China, as well as the benefits and the relaxation and soothing effects provided to the skin, we believe there is a potential for substantial growth in this industry in China. We have been part of this industry in China since 2005. Our total revenue grew from RMB130.9 million in 2007 to RMB374.6 million in 2009, representing a CAGR of 69.2%, outpacing the CAGR for the facial mask industry in China itself for the same period, being 31.6%. As, according to the CTR Reports, our 美即 brand is ranked first with a 15.1% share of the facial mask industry in China in 2009 in terms of retail sales, we believe we are in a prime position to capitalise on its future growth.

We believe that the barriers to entry into the skincare and facial mask market are high, due to factors such as initial capital investment in plant and equipment, manufacturing capacity, cost and time required to build brand awareness and establish a professional sales and marketing team and an effective distribution network. We also believe that in the coming years, the leading skincare and facial mask brands will continue to gain market share at the expense of less established, lower end brands due to their critical mass in distribution network, innovation in product design and development and greater brand recognition.

We compete with international brands with a presence in China as well as domestic brands. We have a competitive advantage over our competitors in the facial mask industry in China through our leading market position, well-recognised brand, established professional sales and marketing team and

INDUSTRY OVERVIEW

sales channels, marketing and promotional activities, strong product development capability and expansion of production capacity. We also focus predominantly on and offer a diversified mix of facial mask products with different characteristics to cater for different skin types and satisfy consumer needs in China.

For opportunities and challenges to the skincare and facial mask industries, please refer the section headed “Business — Competition” in this prospectus for further details.

TRENDS IN THE SKINCARE INDUSTRY IN THE PRC

The skincare industry in the PRC is undergoing evolution. Natural, organic, herbal and detoxifying ingredients are becoming more and more popular amongst consumers as they increasingly focus their attention on their health and well-being. In particular, the Chinese herbal skincare market in the PRC has experienced growth in the recent years. It is believed that such growth is due to market-specific factors which include consumers’ increasing emphasis on health consciousness, product safety and pursuit of natural and healthy products.

Further, the ZPI Report indicates that as China’s population continues to age, anti-aging skincare market continues to develop rapidly.

RAW MATERIALS

Due to the diversified offering of products of our Company, we used a variety of raw materials that changed from time to time during the Track Record Period. Our raw materials primarily comprise of (i) water; (ii) essence ingredients (which include hyaluronic acid (玻尿酸), lubrajel oil (盧芭油), collagen (膠原蛋白) and sodium lactate (乳酸鈉)); and (iii) non-woven cloth. During the Track Record Period, our Company has sourced our raw materials from a number of suppliers and the raw materials used by us were readily available. During the Track Record Period, we did not experience any material price fluctuations for our raw materials.

Please refer to the section headed “Financial Information” in this prospectus for details of our raw material costs and the trend of such costs over the Track Record Period.

THE LAWS AND REGULATIONS RELATING TO THE INDUSTRY

COSMETICS REGULATORY SYSTEM IN THE PRC

The laws regulating the production and sale of cosmetics in the PRC include Regulations Concerning the Hygiene Supervision Over Cosmetics (化妝品衛生監督條例), the Regulation of the PRC on the Administration of Production Licence for Industrial Products (中華人民共和國工業產品生產許可證管理條例), the Administrative Provisions on Cosmetics Labeling (化妝品標識管理規定), the Administrative Rules on the Advertisement of Cosmetics (化妝品廣告管理辦法) and the Standardisation Law of the PRC (中華人民共和國標準化法). Certain provisions of the above laws and regulations relating to the skincare products and cosmetics industry are set out below.

Regulations Concerning the Hygiene Supervision Over Cosmetics Products and its implementation

According to the Regulations Concerning the Hygiene Supervision Over Cosmetics Products (“**Supervision**”) issued by the Ministry of Health of the PRC which became effective from 1 January 1990, cosmetics (including daily used chemical products applied on the surface of any part of the human body (such as skin, hair, nails and lips) by way of smearing, spraying or other similar methods for cleaning, odour eliminative, skincare, cosmetics and makeup purposes) manufacturers shall obtain a hygiene licence approved and issued by the health administration department at the provincial, autonomous regional or municipal level of the PRC (the responsibilities of hygiene supervision over cosmetics are delegated from the Ministry of Health to the State Food and Drug Administration by virtue of the 2008 Plan for Restructuring the State Council). The term of validity of the hygiene licence is four years and it must be renewed every two years thereafter. No manufacturer in the PRC is allowed to engage in the production of cosmetics without a hygiene licence. Cosmetics for special uses such as hair nourishment, hair-dye, hair perm, hair removal, breast massage, deodorant, freckle fading and anti-sunburn must be approved by the Health Administration of the State Council and production cannot commence until the approval certificate is obtained. The label of cosmetics shall contain the name of product and producer, as well as the hygiene licence number of the manufacturer. Unlicensed manufacturers shall be ordered to cease production and their products and illegal earnings shall be confiscated and a fine up to three to five times the illegal profits shall be imposed.

According to the Implementation Rules of the Regulations Concerning the Hygiene Supervision Over Cosmetics issued by the Ministry of Health of the PRC on 27 March 1991 and revised on 20 May 2005, an application to renew a hygiene licence shall be made three months before expiry. Cosmetics used for special purposes are subject to production hygiene safety evaluation before market launch. Approved products will be granted a special cosmetics approval certificate, which is renewable every four years. Holders of the approval certificate need to re-apply to provincial Health Administrations together with the original approval documents and other relevant documents four to six months before the expiry date. Upon being approved, provincial Health Administrations will submit these documents to the Health Administration Department of the State Council for its approval. For those who do not apply for renewal beyond the set period, its original approval certificate would become void. Producers shall provide relevant documents and samples in order to produce non-special cosmetics and shall file the same with the provincial Health Administrations within two months after market launch. According to regulations, if manufacturers produce special cosmetics without an approval number, or use forbidden

THE LAWS AND REGULATIONS RELATING TO THE INDUSTRY

materials in cosmetics or unauthorised new materials, such products will be confiscated and the manufacturers will be fined three to five times the illegal profits. In addition, such manufacturers may be ordered to stop production and their hygiene certificate may be revoked. The confiscated products will be destroyed under the supervision of the Health Administration.

Regulation of the PRC on the Administration of Production Licence for Industrial Products and its measures

According to Regulation of the PRC on the Administration of Production Licence for Industrial Products (the "**Regulation**"), which is issued by the State Council of the PRC and became effective on 1 September 2005, manufactures of certain industrial products must first obtain a production licence. According to the Catalogue of Production Licence Products of the State (the "**Catalogue**") issued on 9 May 2004 by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC ("**GAQSIQ**"), manufacturers should obtain a production licence for the production of cosmetics from the provincial administration authorities responsible for issuing such licences within the jurisdiction where the manufacturer is located (the "**Administrative Authorities**"). The Regulation also stipulates that no manufacturer shall manufacture the products listed in the Catalogue without first obtaining the necessary production licence. The Regulation further provides that an enterprise or individual shall not sell or use the products without holding a production licence. The term of a production licence is for five years and the manufacturer shall apply to the Administrative Authorities within six months before the expiry date of the production licence for licence renewal. If a manufacturer manufactures products listed in the Catalogue without obtaining a production licence, the Administrative Authorities will order it to cease production, confiscate the unlawfully produced products and the manufacturer shall be subject to penalty of no more than three times of the value of the products unlawfully produced. Any profit from the sales of such illegal products shall be confiscated. The producer violating the criminal law is also liable to criminal charges.

According to the Measures for the Implementation of Regulation of the PRC on the Administration of Production Licence for Industrial Products (the "**Measures**"), effective since 1 November 2005 and issued by GAQSIQ, enterprises which entrust or are entrusted to process the products administrated by the production licence shall file a record with the provincial licence administration office. The trustee must hold a legal and valid production licence. The entrustor must label on its products, packages or references as labeled in the filings. If an entrustor possesses a production licence for the relevant product that it entrusts to another enterprise (the trustee), it should include in the label its name and address and the name, production licence mark and number of the trustee; in the alternative, the entrustor can include in the label its name, address, production licence mark and number. If the entrustor or the trustee do not file or if the entrustor changes the product labeling method, the quality and technical supervision bureau at the county level or above shall order it to rectify the breach within a certain period and will impose a penalty of no more than RMB30,000 on the party in breach. If a breach is not rectified within the stipulated period, the production licence for the entity in breach will be revoked.

The Administrative Provisions on Cosmetics Labeling

According to the Administrative Provisions on Cosmetics Labeling effective from 1 September 2008, labels of cosmetics should state the name, actual place of production and processing place of cosmetics, the name and address of the producer, the date of production, the expiry date, the batch

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number, the net content, a list of full contents, national standards, industrial standards or enterprise standards and the production licence mark and number for those who have filed the same with the authorities. Labels of cosmetics must include quality inspection certificate. Additional description should be included depending on needs or when it is difficult to reflect all the information of the cosmetics in the label. For cosmetics which are easy to be damaged or are harmful to human health and become unsafe due to improper use or storage, matters warranting attention, warnings in Chinese, storage conditions and safety requirements must be stated. Other than the registered trademark, the contents of the labels of cosmetics must be stated in standard Chinese.

The Administrative Rules on the Advertisement of Cosmetics

According to the Administrative Rules on the Advertisement of Cosmetics promulgated by the State Administration of Industry and Commerce on 13 July 1993, which became effective on 1 October 1993 and which was amended on 28 September 2005, advertisement of cosmetics shall not contain prohibited contents, such as false or exaggerating names or representation of any recipe, contents, effect or performance; statement guaranteeing any results in any party's name or causing others to misapprehend its effect in an implied manner; exaggerating its medical effects or misuse of medical terms; to misapprehend debasement of competitors' products; use of unqualified words such as "new creation", "new invention", "pure natural products" and "no side effects"; and false or exaggerating representation of any performance or function of cosmetics. Otherwise, the Administration of Industry and Commerce shall have the right to circulate a notice of criticism and impose a fine depending on the severity of the violation.

The Standardisation Law of the PRC and its implementation

According to the Standardisation Law of the PRC promulgated by the Standing Committee of the National People's Congress on 29 December 1988 and which became effective from 1 April 1989, where, in the absence of both national and industrial standards for products manufactured by an enterprise, standards for the enterprise shall be formulated by the enterprise itself to serve as the criteria for the organisation of production. An enterprise's standards for its products shall be filed with the Standardisation Administration Department and other competent administrative authorities under the local government. China encourages enterprises with applicable national or industrial standards to formulate their enterprise standards which are more stringent than the equivalent national or industrial standards. National standards and industrial standards shall be classified into compulsory standards and voluntary standards. Those for safeguarding personal health and safety, and protection of property are compulsory standards, the rest shall be voluntary standards. Compulsory standards must be complied with. Production, sale or import of products that are not in compliance with the compulsory standards is prohibited. The party that produces, sells or imports products that do not conform to the compulsory standards shall be dealt with according to the relevant laws and administrative rules and regulations. In the absence of such compulsory standards, the default party's products and unlawful proceeds shall be confiscated and it shall be concurrently fined by the administrative authorities of industry and commerce; there will be criminal liabilities if serious harm is caused, and the person directly responsible shall be held liable for criminal responsibility.

THE LAWS AND REGULATIONS RELATING TO THE INDUSTRY

According to the Regulations for the Implementation of the Standardisation Law of the PRC promulgated by the State Council of the PRC and which became effective from 6 April 1990, enterprise and individual that are engaged in research, production and operation must implement the compulsory standards strictly. The production, sales or import of products that are not in compliance with the compulsory standards are prohibited. Enterprises implementing national standards, industrial standards or enterprise standards should mark on the product or its instructions or package the number and name of the standards they implement. Enterprises failing to file standards of products with the higher authorities according to the relevant stipulations would be ordered to rectify their failures within a set time limit determined by the administrative departments in charge or the relevant administrative authorities within their respective competence, which may also circulate notices of criticism or give administrative sanctions to the persons and/or enterprises responsible for the violations. Enterprises that produce products which fail to meet any compulsory standards shall be ordered to stop production and products in violation will be confiscated and destroyed under supervision or be subject to necessary technical repairing or processing. A fine ranging from 20% to 50% of the total value of such goods shall be imposed on the enterprises and a fine up to RMB5,000 on the persons held responsible. Those who sell goods which are not up to the compulsory standards shall be ordered to stop their sales and recall the goods which have already been sold within a set time-limit. All the goods should be destroyed under supervision or be subject to necessary technical repairing or processing. The illegal gains shall be confiscated and a fine ranging from 10% to 20% of the total value of the goods shall be imposed on the enterprises and a fine of RMB5,000 or less on the persons held responsible.

PRC ENVIRONMENTAL PROTECTION LAW

According to the PRC Environmental Protection Law promulgated by the Standing Committee of the National People's Congress and effective on 26 December 1989, the responsibility of environmental protection shall be borne by all enterprises and individuals in China. The Environmental Protection Administration Department under the State Council is responsible for the supervision and management of environmental protection in China. The environmental protection department at the county level or above is responsible for the supervision and management of environmental protection under their respective jurisdictions. Installations of environmental protection facilities in relation to construction works must be designed, built and commissioned together with the principal part of the construction work. Upon completion of the construction work for environmental protection facilities, inspections will be made by the relevant environmental protection department, and operation can only commence following its approval. Operation of environmental production facilities prior to obtaining such approval could result in the environmental protection department ordering business operations to be suspended, and the enterprise in breach be subject to fines. Enterprises discharging wastes are required to be registered with the relevant environment protection departments and, if it is in excess of the prescribed national or local discharge standards, it shall be required to pay for excessive discharge of waste and assume the responsibility for eliminating and controlling the pollution. Failure to pay the fees, depending on the circumstances of each case could result in the infringing enterprise being issued with a warning or fined by the appropriate environmental protection administration agencies. If an enterprise or institution has caused severe environmental damage, it shall be required to eliminate and appropriately manage the pollution within a stipulated period of time. Failure to comply could result in the enterprise being fined or ordered to suspend or terminate its business operations depending on the severity of the environmental regulation breached.

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Under the PRC Prevention and Control of Water Pollution Law (中華人民共和國水污染防治法), companies which discharge pollutants directly or indirectly into bodies of water must register with the environmental protection department of the local government at the county level or above in the area where they are situated. Such companies must provide information on their facilities which discharge such pollutants, their treatment production bases, the type, amount and concentration of the pollutants discharged under normal business operations, in accordance with regulations set by the Administration Supervisory Department of Environmental Protection of the State Council. If there are significant changes to the type, amount or concentration of pollutants being discharged, such changes must be reported immediately. The dismantling or non-usage of pollution treatment production bases also require the approval of the environmental protection department of the local government at county level or above.

Under the PRC Prevention and Control of Atmospheric Pollution Law (中華人民共和國大氣污染防治法), companies which discharge pollutants into the atmosphere must provide details of the discharge to the environmental protection department of the local government. Such details must include the facilities which discharge such pollutants, their treatment production bases, the type, amount and concentration of the pollutants discharged under normal business operations, in accordance with regulations made by the Administration Supervisory Department of Environmental Protection of the State Council. If there are significant changes to the type, amount or concentration of pollutants being discharged, such changes must be reported immediately. The dismantling or non-usage of pollution treatment production bases also requires the approval of the environmental protection department of the local government.

Under the PRC Prevention and Control of Solid Waste Pollution Law (中華人民共和國固體廢物污染環境防治法), companies which discharge solid waste pollution shall be responsible for their pollution. Companies must register with the local relevant authority for their solid waste pollution, and must provide information in relation to the type, amount, discharge and treatment of such pollution in accordance with regulations made by the Administration Supervisory Department of Environmental Protection of the State Council. If there are significant changes to the type, amount or concentration of pollutants being discharged, such changes must be reported immediately. The dismantling or non-usage of pollution treatment production bases also requires the approval of the environmental protection department of the local government.

Our PRC legal adviser has confirmed that we have obtained all necessary PRC licences and permits and our business and operations have complied with all the relevant regulatory requirements in all material respects.

To ensure ongoing compliance with the regulatory requirements, we have adopted, among others, the following measures:

- (a) assigned our in-house legal counsel to monitor both current and newly promulgated regulatory requirements applicable to our Group; and
- (b) regularly consult external legal counsel for advice regarding both current and newly promulgated regulatory requirements applicable to our Group.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

HISTORY AND DEVELOPMENT

The origin of the facial mask and skincare products business of the Group dated back to May 2005 when Hua Han Group invested in Guangdong Qunhe by way of capital injection as further described below.

Guangdong Qunhe was established in March 2003 in the PRC. At the time of its establishment, Guangdong Qunhe was held as to 70% by Mr. She and as to 30% by Mr. Yang Wu, an Independent Third Party. Prior to the setting up of Guangdong Qunhe, both of Mr. She and Mr. Yang Wu had been previously working as senior management of a company which was principally engaged in facial masks business. In order to avoid outsiders from drawing a connection between Guangdong Qunhe and the company which they previously worked for, they decided not to hold equity interests in Guangdong Qunhe direct by entering into trust arrangements in June 2003 whereby Mr. She's 70% interest in Guangdong Qunhe was held by Ms. Liu Ningzhen, the mother of Mr. She, on his behalf and Mr. Yang Wu's 30% interest was held as to 10% by Mr. Yang Wu and 20% by Ms. Liu Renhui (an Independent Third Party) on his behalf. Each of Ms. Liu Ningzhen and Ms. Liu Renhui had not received any consideration, benefits or advantages from Guangdong Qunhe in entering into such trust arrangements. Our PRC legal adviser is of the view that the above trust arrangements of Guangdong Qunhe were legal, valid and enforceable under the PRC laws and regulations and that based on the reason of such trust arrangements, such arrangements as a whole did not constitute a measure to circumvent the laws, rules and regulations of the PRC.

MG Cosmetics was established in the PRC in August 2003, and was then held as to 70% by Guangdong Qunhe, 15% by Mr. Luo and 15% by Ms. Huang Junmin, an Independent Third Party who is the ex-wife of Mr. Ho. As advised by Mr. She and Mr. Luo, the then management of Guangdong Qunhe, in 2004, the management of Guangdong Qunhe intended to introduce investors engaging in the pharmaceutical industry to invest in Guangdong Qunhe. In order to present Guangdong Qunhe as a professional player in the pharmaceutical industry, to maintain its professional image and to delineate its business from the skincare business of MG Cosmetics which the management of Guangdong Qunhe then believed that as the approval and licensing requirements in the PRC for skincare businesses were generally less stringent than those for pharmaceutical businesses, the skincare businesses were viewed by people engaging in pharmaceutical businesses to be less specialised, Guangdong Qunhe entered into trust arrangements in February 2004 whereby Guangdong Qunhe's interest in MG Cosmetics was held by Ms. Liu Ningzhen, the mother of Mr. She, and Ms. Liu Renhui, an Independent Third Party, as to 49% and 21% respectively on behalf of Guangdong Qunhe.

In May 2005, Hua Han Group, through its wholly owned subsidiary, GHMM, invested in Guangdong Qunhe by way of capital injection of RMB7,000,000, representing 70% equity interest of Guangdong Qunhe after and as enlarged by such capital injection. After the investment by GHMM, Guangdong Qunhe was owned as to 70% by the Hua Han Group, 21% by Mr. She and 9% by Mr. Yang Wu, an Independent Third Party. The effective interest of the Hua Han Group in MG Cosmetics at the relevant time was 49% (through 70% equity interest held by Guangdong Qunhe which was in turn held as to 70% by GHMM, a wholly owned subsidiary of Hua Han).

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Since then, Guangdong Qunhe has been the operating company of the Group for the sales and distribution of the facial mask and skincare products while MG Cosmetics has been the manufacturing arm of such products.

In December 2005, the Group, through Guangdong Qunhe, set up a subsidiary in Hainan, namely, Hainan Yangpu, to act as a trading company within the Group. Hainan Yangpu was also set up to take advantage of the government subsidies which it enjoyed for the period from its incorporation to 2008. Since its incorporation, Mr. Gao Fei held 2% equity interest of Hainan Yangpu on trust for Guangdong Qunhe as it was a requirement under the then Companies Law of the PRC that equity interests in a company shall be held by at least two entities. Hainan Yangpu has been dormant since October 2008 and its entire interest was disposed of to an Independent Third Party in January 2010 at a total consideration of RMB 1 million which was determined with reference to the then registered capital of Hainan Yangpu. No material gain or loss to the Group was resulted from such disposal. Prior to Hainan Yangpu becoming dormant in October 2008, the revenue of Hainan Yangpu for each of the two financial years ended 30 June 2008 was HK\$70.4 million and HK\$129.4 million, respectively. Prior to the disposal, Hainan Yangpu functioned as a trading company within the Group and all the transactions conducted by it were inter-company sales within the Group. Hainan Yangpu had only one client, namely Guangdong Qunhe, and it mainly acted as the intermediary for the sale of products to and from Guangdong Qunhe and MG Cosmetics. Hainan Yangpu ceased its business operation in October 2008 and was eventually disposed of as the rate of the aforementioned government subsidy decreased year on year and as a result, the administrative cost of maintaining this intermediary structure outweighed the benefits of retaining it.

In July 2006, the Hua Han Group underwent a reorganisation and established Magic Holdings as an intermediate holding company with the aim to streamline and more clearly delineate the principal activities of the group companies carrying on the facial mask and skincare products business with its other business segments.

Pursuant to an approval by the Foreign Trade and Economic Cooperation Office (“FTECO”) of Panyu District, Guangzhou City dated 18 December 2006, Magic Holdings was approved to (i) acquire 100% equity interest of MG Cosmetics from two shareholders (namely Ms. Liu Ningzhen and Ms. Liu Renhui, who collectively held 70% equity interests of MG Cosmetics on behalf of Guangdong Qunhe), and other shareholders of MG Cosmetics (as to 15% from Mr. Luo and the remaining 15% from Ms. Huang Junmin, an ex-wife of Mr. Ho) and (ii) contribute to the increase in registered capital of MG Cosmetics from RMB 1 million to HK\$40 million. The acquisition of MG Cosmetics was at a consideration of RMB1.15 million, which was arrived at with reference to the then appraised value of MG Cosmetics. The Certificate of Approval was issued on 21 December 2006 and MG Cosmetics became a wholly-owned subsidiary of Magic Holdings. As advised by our PRC legal adviser, it was set out in 《商務部關於進一步改進外商投資審批工作的通知》(Notice of MOFCOM regarding further improvement in foreign investment approval procedures) that FTECO of Guangzhou City was the equivalent approving authority of MOFCOM of Guangzhou City, and had the authority to approve the mergers and acquisitions of Guangzhou City. Further, according to the document 《關於廣州美即化妝品有限公司辦理股權併購的有關情況說明》(Note regarding the circumstances of the acquisition of MG Cosmetics) dated 19 March 2010 issued by FTECO of Panyu District, Guangzhou City, which was further confirmed in writing by FTECO of Guangzhou City, at the relevant time of the approval of the acquisition of MG Cosmetics, FTECO of Guangzhou City had delegated its approval power for the relevant acquisition to FTECO of

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Panyu District, Guangzhou City, and the approval by FTECO of Panyu District, Guangzhou City dated 18 December 2006 regarding the acquisition of MG Cosmetics was authorised and recognised by FTECO of Guangzhou City. Based on the above, our PRC legal adviser is of the view that the acquisition of MG Cosmetics was in compliance with the PRC laws and regulations, and it was not necessary to obtain another approval from MOFCOM or its branch office in relation to such acquisition.

As further advised by our PRC legal adviser, according to Chapter IV of 《關於外國投資者併購境內企業的規定》 (the Rules on Acquisition of Domestic Enterprises by Foreign Investors) issued by MOFCOM which became effective on 8 September 2006 and was revised on 22 June 2009 (“**Acquisition Regulations**”), where equity interests of PRC domestic companies are acquired through payment of equity interests held by shareholders of an offshore specially-purposed vehicle (“**SPV**”) or additional equity interests issued by such SPV, such acquisition of PRC domestic companies and listing of the equity interests of SPV shall be subject to approvals by MOFCOM and the China Securities Regulatory Commission (“**CSRC**”). Our PRC legal adviser advised that as cash consideration was paid by Magic Holdings for the acquisition of MG Cosmetics rather than equity interests, the abovementioned requirement of approvals from MOFCOM and CSRC prescribed by the Acquisition Regulations is not applicable to the acquisition of MG Cosmetics by Magic Holdings and the Listing and therefore, the Listing does not require approval from MOFCOM or CSRC.

The registered capital of HK\$40 million was subsequently paid up in April 2007 by Magic Holdings which was funded by each of the Management Shareholders (namely Mr. Tang, Mr. She, Mr. Luo and Mr. Ho) and Queenherb in proportion to their then beneficial shareholding in Magic Holdings, as for the Management Shareholders each with their own source of funding and as for Queenherb, by fund contributed by Hua Han. At the relevant time, Magic Holdings was beneficially held as to 51% by the Management Shareholders (among which 21% was held on trust for Mr. Tang, 19.5% was held on trust for Mr. She, 6% was held on trust for Mr. Luo and 4.5% was held on trust for Mr. Ho) and as to 49% by Queenherb. The following is a table showing the movement of the Management Shareholders’ shareholding in Magic Holdings and the shareholding structure of Magic Holdings during the Track Record Period and immediately before the acquisition by the Company of the entire issued shares of Magic Holdings (“**Share Swap**”):

Name of shareholders of Magic Holdings	As at 1 July 2006 (Commencement of the Track Record Period)	As at 4 July 2006	As at 21 December 2006	As at 12 June 2008	As at 30 March 2009	As at 13 November 2009	As at 25 March 2010	Immediately before the Share Swap (note 8)
Queenherb	—	100%	100% (Note 1)	49%	49%	36.40%	36.40%	34.58%
MG Company Limited (note 2)	—	—	—	10%	10%	9.20%	9.20%	8.74%
Charm Magna Limited	—	—	—	—	5% (note 7)	4.60% (note 7)	3.94% (note 7)	3.74% (note 7)
Mr. She (notes 3 & 4)	—	—	—	19.5%	19.5%	17.94%	17.07%	16.22%
Mr. Luo (notes 3 & 4)	—	—	—	6%	6%	5.52%	5.25%	4.99%
Mr. Ho (note 4)	—	—	—	4.5%	4.5%	4.14%	3.94%	3.94%
Profit Avenue Limited	—	—	—	11% (note 6)	6%	5.52%	5.52%	5.24%
Atlantis (note 5)	—	—	—	—	—	7.68%	7.68%	7.29%
Cinda (note 5)	—	—	—	—	—	5.00%	5.00%	4.76%
Good Record (note 5)	—	—	—	—	—	4.00%	4.00%	3.80%
Atlantis Healthcare (note 5)	—	—	—	—	—	—	2.00%	1.90%
Share Award Plan Trustee	—	—	—	—	—	—	—	4.80%
Total:	—	100%	100%	100%	100%	100%	100%	100%

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Notes:

1. For the period between 21 December 2006 and 11 June 2008, among the 100% interest in Magic Holdings held by Queenherb, 51% was held on trust as to 21% for Mr. Tang, 19.5% for Mr. She, 6% for Mr. Luo and 4.5% for Mr. Ho.
2. MG Company Limited is wholly-owned by Mr. Tang.
3. Each of Mr. Tang, Mr. She and Mr. Luo is an executive Director.
4. Mr. Tang, Mr. She, Mr. Luo and Mr. Ho are collectively the Management Shareholders.
5. Atlantis, Atlantis Healthcare, Cinda and Good Record are collectively the Strategic Investors.
6. At the relevant time, 5% of the issued share capital of Magic Holdings was held on trust by Profit Avenue Limited in favour of Mr. Tang.
7. The interest in the issued share capital of Magic Holdings was held on trust by Charm Magna Limited in favour of Mr. Tang.
8. Immediately before the Share Swap, 5% of the shares of Magic Holdings (as enlarged by the allotment and issue of such 5% Shares) was allotted and issued to the Share Award Plan Trustee, among which approximately 0.2% of the shares of Magic Holdings were transferred by the Share Award Plan Trustee to Mr. Ho immediately before the Share Swap. The remaining shares of Magic Holdings (representing approximately 4.8% of the shares of Magic Holdings as enlarged by the allotment and issue of such 5% shares under the Share Award Plan) were held by the Share Award Plan Trustee in accordance with the rules of the Share Award Plan.

Mr. She and Mr. Luo were familiar with the facial mask and skincare products business and were confident in the prospect of such business, therefore they invested in the business of the Group and have been the shareholders of MG Cosmetics and/or Guangdong Qunhe prior to these companies being acquired by the Hua Han Group. Mr. Tang joined the Hua Han Group in 2000 whereas Mr. Ho joined the Group in 2005 when the Group was founded. Being confident in the facial mask and skincare products business, Mr. Tang and Mr. Ho therefore made investment in the Group in December 2006.

In June 2008, Mr. Tang transferred 6% of the then shareholding in Magic Holdings at nil consideration to Profit Avenue Limited, whose sole legal and beneficial owner was Ms. Zhu Yingfang, each an Independent Third Party. As advised by Mr. Tang, the family of Ms. Zhu Yingfang was engaged in a variety of businesses, including property development and forestry exploration. Mr. Tang believed that the business connections of Ms. Zhu Yingfang and her family could be beneficial to his personal business ventures that he might be interested to invest into in future and he believed that it would be in his interest to cultivate a good relationship with Ms. Zhu Yingfang and her family and to have her as his business partner. Therefore, he decided to transfer the said 6% shares in Magic Holdings at nil consideration to Profit Avenue Limited. Since then, Magic Holdings was held as to 5% by Profit Avenue Limited on trust for and on behalf of Mr. Tang, and as to 6% legally and beneficially by Profit Avenue Limited. In March 2009, in order to delineate Mr. Tang's own interest and the interest of that of Ms. Zhu Yingfang, Mr. Tang arranged the 5% shares in Magic Holdings to be transferred to a new investment holding company, Charm Magna Limited, to hold interest in Magic Holdings on trust for and on his behalf.

Pursuant to a written undertaking given by Mr. Tang dated 10 October 2007 in favour of the Hua Han Group ("**First Voting-in-Concert Undertaking**"), Mr. Tang, whose beneficial interests in Magic Holdings was 21% for the period from 21 December 2006 to 11 June 2008, and 15% for the period from 12 June 2008 to 12 November 2009, confirmed that he had been (since the day of his becoming interested in the shares of Magic Holdings) exercising and undertook that he shall (for so long as he owns any equity interest in Magic Holdings) exercise the voting rights in the shares of Magic Holdings which he was interested in in accordance with the instructions of Queenherb in the general meetings of Magic Holdings. Accordingly, the directors of Hua Han consider that the Hua Han Group had control over Magic Holdings and Magic Holdings was treated as a subsidiary of Hua Han.

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In November 2006, Magic Holdings established a wholly-owned subsidiary in Hong Kong, Qunhe HK. Such company has been providing administrative and marketing and customer services to the Group for the distribution of the facial mask and skincare products in Hong Kong through one of our distributors in the PRC. We do not have any operation or sales in Hong Kong but certain of our products are sold in Hong Kong by one of our distributors in the PRC. Where products are sold in Hong Kong by one of our distributors in the PRC, customer services will be provided to the retailers in Hong Kong by Qunhe HK.

In December 2006, Magic Holdings established a wholly-owned subsidiary, Mijeuk in Korea. It was set up with a view to forming strategic alliances with certain universities and research institutes and with a view to conducting in-depth research and development of the 美即 MEG products and enhancing the Group's facial mask and skincare products with foreign advanced technologies. It acts as a point of liaison of the Group in Korea for contact with research and development institutions and trading partners in Korea. Mijeuk was also licensed by Magic Holdings to use the 美即 MEG brand and its trademarks for sub-licensing to other members of the Group. Besides trademarks sub-licensing and operating as a liaison office of the Group in Korea, Mijeuk does not have any business operation during the Track Record Period.

In January 2008, Magic Holdings set up a wholly-owned subsidiary in Guangzhou, MG Bio-tech. MG Bio-tech is holding certain lands and buildings of the Group and it is still at the preparation stage for construction of a new production complex in Guangzhou. It is currently intended that the products to be produced in the new production complex in Guangzhou will be our existing products and products to be developed in the future.

In 2008, the Group planned to expand the sales channel of its products to Beijing, the PRC. As the products of Donglisheng were sold through distributors to department stores, which is dissimilar to the Group's products which are mainly sold through distributors in personal care chain stores, hypermarkets, supermarkets and cosmetics specialty stores, the Group believed that the acquisition of Donglisheng could both expand the Group's product line and sales channel. Donglisheng was established in January 2005. In February 2008, the Group acquired 70% interest in Donglisheng from two Independent Third Parties at an aggregate consideration of RMB30 million, which was arrived at on arm's length basis based on the assessment of the value of Donglisheng by the Group's management having regard to the management's understanding of the brands, products and sales channel and the potentials in the future development of Donglisheng. Donglisheng was intended to undertake the sales and marketing functions of the facial mask and skincare products in Beijing. At the time of the acquisition, Donglisheng was profit making and was engaged in the sales and marketing of skincare products (including facial cleansers, toners and creams) in Beijing and the gross profit for the year ended 30 June 2007 was approximately HK\$0.6 million. The 30% minority shareholder of Donglisheng was an Independent Third Party who was an individual and had been engaging in the skincare business for over 3 years at the time when Donglisheng was acquired by us. After the acquisition, Donglisheng has continued to sell such skincare products.

The revenue for Donglisheng (after the acquisition by the Group) amounted to approximately HK\$0.9 million, HK\$0.9 million and HK\$0.8 million for each of the two years ended 30 June 2008 and

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2009 and ten months ended 30 April 2010, respectively. The loss after tax for Donglisheng (after the acquisition by the Group) amounted to approximately HK\$1.0 million, HK\$4.6 million and HK\$3.3 million for each of the two years ended 30 June 2008 and 2009 and ten months ended 30 April 2010, respectively.

In December 2008, the Hua Han Group underwent another internal reorganisation whereby the 70% equity interest in Guangdong Qunhe and its then wholly-owned subsidiary, Hainan Yangpu held by GHMM was transferred to MG Cosmetics (being 49% indirectly held by the Hua Han Group) at a consideration of RMB7 million which was determined with reference to the then net asset value of Guangdong Qunhe. At the same time of such reorganisation, MG Cosmetics also acquired the remaining 30% equity interest in Guangdong Qunhe from its minority shareholder at a consideration of RMB3 million which was determined with reference to the then net asset value of Guangdong Qunhe. Pursuant to the said reorganisation, the equity interest of the Hua Han Group in Guangdong Qunhe reduced from 70% (through beneficial ownership of 70% equity interest of Guangdong Qunhe by GHMM, an indirect wholly-owned subsidiary of Hua Han) to 49% (through ownership of 100% equity interest in Guangdong Qunhe by MG Cosmetics, an indirect 49%-owned subsidiary of Hua Han).

In November 2009, Magic Holdings introduced the First Strategic Investors as strategic investors into the Group by way of issuing of new shares by Magic Holdings and selling by Hua Han through Queenherb of certain existing shares of Magic Holdings to the First Strategic Investors (“**First Strategic Investment**”). Upon completion of the First Strategic Investment, Magic Holdings was held as to approximately 36.4% by Hua Han Group. The remaining shareholding of Magic Holdings was held as to 41.4% by the Management Shareholders, approximately 5.5% by an independent shareholder and approximately 16.7% by the First Strategic Investors. In March 2010, the Management Shareholders sold, in aggregate, 2% of the shares in Magic Holdings held by them to Atlantis Healthcare (“**Second Strategic Investment**”) which, together with the First Strategic Investment are referred to as “**Strategic Investment**”). Upon completion of the Second Strategic Investment, Magic Holdings was held as to approximately 36.4% by Hua Han Group, 39.4% by the Management Shareholders, 5.5% by an independent shareholder and 18.7% by the Strategic Investors. Further information regarding the Strategic Investment is set out in the paragraph headed “Strategic Investment” in this section.

Taking into consideration the First Voting-in-Concert Undertaking and a written undertaking given by Mr. She dated 5 November 2009 in favour of Queenherb (“**Second Voting-in-Concert Undertaking**”) and, together with the First Voting-in-Concert Undertaking, the “**Voting-in-Concert Undertakings**”) pursuant to which Mr. She, then holding 19.5% of the issued share capital of Magic Holdings, undertook that he shall (for so long as he own any equity interest in Magic Holdings) exercise the voting rights in the shares of Magic Holdings which he was interested in accordance with the instructions of Queenherb in the general meetings of Magic Holdings, Magic Holdings was treated as a subsidiary of Hua Han.

The Hua Han Group had been relying on the First Voting-in-Concert Undertaking since 21 December 2006 (being the time Mr. Tang became interested in 21% interest in Magic Holdings) and up to the Latest Practicable Date, and the Second Voting-in-Concert Undertaking from 5 November 2009 (being the date of the Second Voting-in-Concert Undertaking) and up to the Latest Practicable Date, in consolidating the results of Magic Holdings. The Voting-in-Concert Undertakings were given in recognition of Hua Han Group’s initial contribution to the development, operation and management of the Group and for reason that by so doing, the Group could maintain its status as a subsidiary of the Hua

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Han Group and present itself as a member of the Hua Han Group instead of being a private group of companies which, in turn, should be beneficial to the development of the Group as a whole. The Hua Han Group was not required to provide any benefit or consideration to Mr. Tang or Mr. She in respect of the Voting-in-Concert Undertakings. It was not specified in the Voting-in-Concert Undertakings as to how the instructions should be given. Although there was no record of written instructions from the Hua Han Group or Queenherb to the relevant person(s) giving the relevant undertaking, it was confirmed by Mr. Tang and Mr. She that they had always been in discussion with the Hua Han Group regarding matters to be decided by the shareholders of Magic Holdings and that both of them had been acting in accordance with the directions of the Hua Han Group and Queenherb. The Voting-in-Concert Undertakings were not against the constitutional documents of Magic Holdings and they were also not against any of the applicable laws or regulations of the BVI, the place of incorporation of Magic Holdings. Neither Mr. Tang nor Mr. She should be regarded as a concert party with Hua Han within the meaning of the Takeovers Code after the Listing for reason that the voting arrangement will only exist prior to the Listing when Magic Holdings is still a private company and will be cancelled upon Listing, and that the only purpose of such voting arrangement was to maintain Magic Holdings as part of the Hua Han Group.

In March 2010, in order to broaden the product range to reinforce the research and development capabilities, technical knowhow and production quality of the facial mask and skincare products, Magic Holdings entered into the Magic-Hanbul JV Agreement for the establishment of a joint venture, the MG JV Group with Hanbul, a strategic partner, for sales and marketing, selling and distributing cosmetic and skincare products under, among others, the “It’s Skin” and “ICS” brands in Greater China. Hanbul is a cosmetic holding company based in Korea. It owns manufacturing plant and research and development centre to produce a wide variety of products, namely skincare products, cosmetics and cleansing products. Under the Magic-Hanbul JV Agreement, as Hanbul agreed to provide technical support and training to the MG JV Group in relation to research and development, manufacturing, sales and marketing, we can strengthen our competitiveness in respect of our research and development, technical knowhow development, brand management, quality control and general management. Please also refer to the section headed “Business — Products — New products and new product series under development” in this prospectus. The MG JV Group will consist of MG JV PRC, an operating company to be established in the PRC, and MG JV BVI and MG JV HK, being investment holding companies in the BVI and Hong Kong. MG JV BVI and MG JV HK were established in 7 May 2010 and 1 September 2010, respectively. It is expected that MG JV PRC will be established by March 2011 upon obtaining relevant approvals from the regulatory authorities of the PRC. The MG JV Group is owned as to 51% by Magic Holdings. Hanbul is a Connected Person by virtue of being a substantial shareholder of MG JV BVI, a non-wholly owned subsidiary of the Company. Other than as a joint venture partner of the Group and a party to an OEM supply agreement entered into by us with Hanbul whereby Hanbul agreed to manufacture skincare products under the brand of “Keep Up” for us (particulars of which are set out in the section headed “Connected Transactions — Continuing connected transactions” subject to the reporting announcement and (if applicable) shareholders’ approval requirements in respect of which a waiver has been granted by the Stock Exchange — (b) Sourcing of skincare and cosmetics products), Hanbul does not have any connection with the Group. Hanbul is owned as to approximately 55.61% by Mr. Lim Byung Chul, 29.08% by Mr. Lim Hyun Chul and 15.31% by Mr. Lim Sung Chul. Each of Mr. Lim Byung Chul and Mr. Lim Hyun Chul is a director of MG JV BVI and therefore a Connected Person. Mr. Lim Sung Chul is an associate of Mr. Lim Byung Chul and Mr. Lim Hyun Chul and is therefore a Connected Person.

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The Company was incorporated in the Cayman Islands on 9 February 2010 as an exempted company with limited liability. At the time of its incorporation, the Company was solely held by Mr. Tang who was allotted with one nil-paid Share.

Pursuant to the Share Award Plan approved and adopted by the shareholders of Magic Holdings on 30 October 2009, 5% of the shares of Magic Holdings (as enlarged by the allotment and issue of such 5% shares under the Share Award Plan) was allotted and issued to the Share Award Plan Trustee, among which shares representing approximately 0.2% of the shares of Magic Holdings (as enlarged by the allotment and issue of such 5% shares under the Share Award Plan) were transferred by the Share Award Plan Trustee to Mr. Ho immediately before the Company's acquisition of the entire issued share capital of Magic Holdings pursuant to the Reorganisation in accordance with the terms of the relevant award letter. The remaining shares of Magic Holdings were held by the Share Award Plan Trustee in accordance with the rules of the Share Award Plan, out of which shares representing approximately 2.66% of the shares of Magic Holdings (as enlarged by the allotment and issue of such 5% shares under the Share Award Plan) have been awarded to senior management and employees of our Group and will be transferred to them by the Share Award Plan Trustee in accordance with the terms and conditions of such awards and the rules of the Share Award Plan. For further details of the Share Award Plan, please refer to the paragraph headed "Share Award Plan" in Appendix VI to this prospectus.

As the final step of the Reorganisation, the Company acquired from the then shareholders of Magic Holdings the entire issued share capital of Magic Holdings pursuant to a share purchase agreement dated 6 September 2010 in consideration of and in exchange for (i) the allotment and issue, credited as fully paid, of 2,288,300 new Shares to the then shareholders of Magic Holdings and (ii) the crediting as fully paid at par of the 2,288,300 nil-paid Shares then held by such shareholders of Magic Holdings. Immediately prior to the acquisition, the Company issued and allotted an aggregate of 2,288,299 Shares, nil-paid to the shareholders of Magic Holdings and Mr. Tang transferred the one nil-paid Share then held by him to MG Company Limited, a company wholly-owned by him, so that the shareholding proportion of the Company is the same as that of Magic Holdings immediately prior to it being acquired by the Company. The Company thereby becoming the ultimate holding company of the Group.

Among the Management Shareholders (namely Mr. Tang, Mr. She, Mr. Luo and Mr. Ho), Mr. Tang and Mr. Ho are Hong Kong residents which are not subject to foreign investment registration requirements under SAFE Circular No. 75 ("**Circular 75**"). As for Mr. She and Mr. Luo who are PRC residents, according to the oral enquiry made by our PRC legal adviser with the Guangdong Branch of the SAFE, the equity interests in Magic Holdings held by Mr. She and Mr. Luo were not treated as round-trip investment as defined in Circular 75. As the equity interests in the Company of Mr. She and Mr. Luo were evolved from the shareholding of Magic Holdings after Magic Holdings had already acquired the entire interest in MG Cosmetics and MG Cosmetics was already a wholly foreign owned enterprise, Mr. She and Mr. Luo shall not be subject to foreign investment registration requirements under Circular 75 with respect to their equity interests in the Company upon completion of the Reorganisation and after Listing. Therefore, our PRC legal adviser is of the view that Mr. She and Mr. Luo are not required to go through foreign investment registration requirements under Circular 75 with respect to their equity interests in the Company.

Immediately following completion of the Reorganisation, the Capitalisation Issue and the Global Offering (without taking into account of any Shares which may be issued and allotted pursuant to the

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exercise of the Over-allotment Options), the Hua Han Group will hold approximately 26.0% of the total issued share capital of the Company. Upon Listing, the Voting-in-Concert Undertakings will be cancelled and the Group will cease to be subsidiaries of Hua Han. Other than the Voting-in-Concert Undertakings, there is no other subsisting formal or informal voting arrangement, agreement or understanding among the Shareholders. After the cancellation of the Voting-in-Concert Undertakings, which is conditional on the Listing, the Group will no longer be treated or presented as a member of the Hua Han Group, thereby enhancing the Group's independence from the Hua Han Group, which the Directors consider appropriate as the Company will be listed at that time and should have its separate profile. Moreover, as the two Management Shareholders (namely Mr. Tang and Mr. She) will no longer be voting in accordance with the instruction of the Hua Han Group, business decisions will be made independently from the Hua Han Group whereby Shareholders should be voting in accordance with their own wishes after taking into account interest of the Group as a whole, and thereby strengthening the delineation of business operation of the two groups. As the Voting-in-Concert Undertakings will be cancelled at the time of Listing, the Company will become a public company upon the cancellation of the Voting-in-Concert Undertakings with an expanded spectrum of Shareholders including public Shareholders, the Company is of the view that the risk of having a deadlock in general meetings of the Company after the cancellation of the Voting-in-Concert Undertakings is remote. Therefore, the Directors are of the view that there will not be any negative impact on the Group due to the cancellation of the Voting-in-Concert Undertakings. Hua Han and each of the Management Shareholders will be subject to the restrictions on disposal of the Shares whereby Hua Han and the Management Shareholders shall not (i) in the period commencing on the date of this prospectus and ending on the date which is 6 months from the date of Listing, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrance in respect of, any of the securities of the Company which are shown by this prospectus to be beneficially owned by them; or (ii) in the period of 6 months following the period referred to in (i) above, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities of the Company which are shown by this prospectus to be beneficially owned by them if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, Hua Han and the Management Shareholders would collectively cease to be entitled to exercise or control the exercise of 30% of the voting power at general meetings of the Company. Each of Hua Han and the Management Shareholders confirms that it/he has no intention in any potential acquisitions or disposals of shareholding/assets in the Company for a period of six months after the Listing.

As set out in the announcement of Hua Han dated 1 April 2010, the board of directors of Hua Han believes that the Listing will be beneficial to both the Hua Han Group and the Group due to the difference in products of the two groups, and the two groups of companies are believed to have different growth paths and different business strategies. The Listing is expected to (i) create and allow separate platforms for the business of the two groups; (ii) create two groups of companies and will offer the shareholders of Hua Han with an opportunity to participate in the future development of both the Hua Han Group as well as the Group and flexibility to invest in both or either of the groups; (iii) enable the management team of the Hua Han Group and the Group to focus on their respective core businesses of the two groups of companies, thereby enhancing the efficiency in decision-making process and its responsiveness to market changes; (iv) provide a mechanism to attract and motivate the Group's management directly in line with the financial performance of the Group on a standalone basis; (v) to improve the operational and financial transparency of the Group and provide investors, the market and rating agencies with greater clarity on the businesses as well as the respective financial status of the Hua Han Group and the Group;

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(vi) provide separate fund-raising platforms for the Hua Han Group and the Group with respect to their respective operations and future expansion and (vii) provide capital for the Group (arising from the cash proceeds to be received pursuant to the Global Offering) for its operations and new investment opportunities. Based on the above, the board of directors of Hua Han believes that the Listing will be beneficial to the shareholders of Hua Han as Hua Han will be able to realise the value of its investments in the Group by way of liquid securities. The Listing has complied with the requirements of Practice Note 15 of the Listing Rules.

Details of the Reorganisation are set out in the paragraph headed “Corporate Reorganisation” in Appendix VI to this prospectus.

STRATEGIC INVESTMENT

On 10 November 2009, Hua Han, Magic Holdings and the First Strategic Investors entered into a share subscription and sale and purchase agreement (“**First SI Investment Agreement**”) in relation to the subscription of an aggregate of 1,739 shares of Magic Holdings (“**Subscription Shares**”) by the First Strategic Investors and the sale and purchase of an aggregate of 1,887 shares of Magic Holdings (“**Sale Shares**”) held indirectly by Hua Han through Queenherb. At the time of entry of the First SI Investment Agreement and as at the Latest Practicable Date, save and except the relationship of Atlantis with Atlantis Healthcare, the First Strategic Investors were independent from (i) each other; (ii) Atlantis Healthcare; (iii) the Hua Han Group; and (iv) the Company and the Shareholders. Pursuant to the First SI Investment Agreements the parties have conditionally agreed that (i) the First Strategic Investors shall subscribe for and Magic Holdings shall allot and issue to the First Strategic Investors the Subscription Shares at the subscription price of HK\$62,400,000 (subject to adjustment) (“**Subscription Price**”); and (ii) the First Strategic Investors shall purchase and Hua Han shall sell and/or procure the sale of the Sale Shares to the First Strategic Investors at the Purchase Price of HK\$67,704,000 (subject to adjustment) (“**Purchase Price**”).

On 25 March 2010, the Management Shareholders and Atlantis Healthcare entered into a sale and purchase agreement (“**Second SI Investment Agreement**”) which, together with the First SI Investment Agreement are referred to as “**SI Investment Agreement**”) in relation to the sale and purchase of an aggregate of 434 shares of Magic Holdings (“**Atlantis Sale Shares**”) held by the Management Shareholders, pursuant to which the parties agreed that Atlantis Healthcare shall purchase and the Management Shareholders shall sell the Atlantis Sale Shares to Atlantis Healthcare at the purchase price of HK\$22,770,000 (subject to adjustment) (“**Atlantis Purchase Price**”). At the time of entry of the Second SI Investment Agreement and as at the Latest Practicable Date, save and except the relationship with Atlantis, Atlantis Healthcare was independent from (i) the First Strategic Investors; (ii) the Hua Han Group; and (iii) the Company and the Shareholders.

Major terms of the First SI Investment Agreement

Date:

10 November 2009

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Parties:

Vendor of the Sale Shares:	Hua Han
Issuer of the Subscription Shares:	Magic Holdings, which was then an indirect subsidiary of Hua Han through Queenherb
Purchasers of the Sale Shares and subscribers of the Subscription Shares:	the First Strategic Investors, being Atlantis, Cinda and Good Record

Completion under the First SI Investment Agreement was conditional upon the following conditions being fulfilled (or waived by the First Strategic Investors as to the conditions (a), (b) and (d)) below by the long stop date set out in the First SI Investment Agreement:

- (a) the approval by the directors of Magic Holdings for the allotment and issue of the Subscription Shares and the transfer of the Sale Shares (whose approval shall not be unreasonably withheld or delayed) having been obtained;
- (b) the approval by the directors of Hua Han of the First SI Investment Agreement, the sale of the Sale Shares and other transactions contemplated thereunder (whose approval shall not be unreasonably withheld or delayed) having been obtained;
- (c) (if required) the approval by the shareholders (if required, or if appropriate, independent shareholders) of Hua Han at an extraordinary general meeting of the First SI Investment Agreement and other transactions contemplated thereunder pursuant to the Listing Rules having been obtained; and
- (d) (if required) all requisite approvals, consents and/or waivers from any relevant governments or regulatory authorities or other relevant third parties in connection with the First SI Investment Agreement, the allotment and issue of the Subscription Shares and the sale and purchase of the Sale Shares and other transactions contemplated thereunder having been obtained by Magic Holdings and/or Hua Han.

Subscription of the Subscription Shares

Pursuant to the First SI Investment Agreement, the First Strategic Investors subscribed for and Magic Holdings allotted and issued an aggregate of 1,739 Subscription Shares credited as fully paid to the First Strategic Investors, as to 535 Subscription Shares to Atlantis, 669 Subscription Shares to Cinda and 535 Shares to Good Record.

Sale and Purchase of the Sale Shares

Pursuant to the First SI Investment Agreement, the First Strategic Investors purchased and Queenherb sold an aggregate of 1,887 Sale Shares to the First Strategic Investors at the Purchase Price (subject to adjustment), as to 1,134 Sale Shares to Atlantis, 419 Sale Shares to Cinda and 334 Sale Shares to Good Record.

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Immediately prior to the subscription of the Subscription Shares and the sale and purchase of the Sale Shares, the issued share capital of Magic Holdings was owned indirectly as to 49% by Hua Han and as to the remaining 51% by the Management Shareholders (namely Mr. Tang, Mr. She, Mr. Luo and Mr. Ho, and as for Mr. Tang, by a company wholly-owned by him and a company holding such shares on trust in his favour) and an Independent Third Party. Upon completion of the subscription of the Subscription Shares and the sale and purchase of the Sale Shares, Hua Han's indirect shareholding interest in Magic Holdings was reduced to approximately 36.40%.

Subscription Price and Purchase Price and their adjustments

Subscription Price

The Subscription Price paid by the First Strategic Investors to Magic Holdings for the subscription of the Subscription Shares was an aggregate amount of HK\$62,400,000 (subject to adjustment). The respective amount of the Subscription Price paid by each of the First Strategic Investors is set out opposite each of the Strategic Investors' name in column (3) of the table set out in the section headed "Number of Subscription Shares and Sale Shares and Subscription Price and Purchase Price" below.

Purchase Price

The Purchase Price paid by the First Strategic Investors to the Company for the purchase of the Sale Shares was an aggregate amount of HK\$67,704,000 (subject to adjustment). The respective amount of the Purchase Price paid by each of the First Strategic Investors is set out opposite each of the Strategic Investors' name in column (5) of the table set out in the section headed "Number of Subscription Shares and Sale Shares and Subscription Price and Purchase Price" below.

Basis of determination of the Subscription Price and the Purchase Price

Each of the Subscription Price and the Purchase Price was determined after arm's length commercial negotiation between the parties to the First SI Investment Agreement based on the past performance of the our Group.

Adjustment to the Subscription Price and the Purchase Price

Each of the Subscription Price and the Purchase Price is subject to adjustment having regard to (i) the amount of audited consolidated net profit of our Group (after tax and minority interests and excluding certain fair value adjustments) ("**Actual Net Earnings**") for the financial year ended 30 June 2010 or (ii) (if and in the event that the Listing shall occur before the release of the audited consolidated financial statements of our Group for the financial year ended 30 June 2010 ("**2010 Audited Accounts**")) the profit forecast figures ("**Forecast Profit**") of our Group for the financial year ended 30 June 2010 as disclosed in this prospectus.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

(i) *Adjustment to the Subscription Price*

In the event that the Actual Net Earnings or the Forecast Profit is less than HK\$90,000,000, the First Strategic Investors shall be entitled to adjustment to the Subscription Price in accordance with the following formula:-

$$(A - B) \times C \times D$$

or

$$(A - F) \times C \times D$$

where:

A is HK\$90,000,000

B is the Actual Net Earnings

C is 8.67

D is the percentage of the Subscription Shares to the total issued share capital of Magic Holdings as enlarged by the allotment and issue of the Subscription Shares (i.e. 8%)

F is the Forecast Profit

In the event the adjustment to the Subscription Price is calculated by using the Actual Net Earnings figure, such adjustment shall be borne by Magic Holdings solely. In the event the adjustment to the Subscription Price is calculated by using the Forecast Profit figure, such adjustment shall be borne by Magic Holdings as to the full amount of such adjustment and by Hua Han severally up to 49% of the amount of such adjustment.

As the amount of the Forecast Profit (the details of which are set out in Appendix III to this prospectus) is more than HK\$90,000,000 and assuming Listing will occur before the release of the 2010 Audited Accounts, the Subscription Price adjustments will not apply. The Subscription Price adjustments will no longer be applicable upon the Listing.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

(ii) *Adjustment to the Purchase Price*

In the event that the Actual Net Earnings or the Forecast Profit is less than HK\$90,000,000, the First Strategic Investors shall be entitled to adjustment to the Purchase Price in accordance with the following formula:-

$$(A - B) \times C \times D$$

or

$$(A - F) \times C \times D$$

where:

A is HK\$90,000,000

B is the Actual Net Earnings

C is 8.67

D is the percentage of the Sale Shares to the total issued share capital of Magic Holdings as enlarged by the allotment and issue of the Subscription Shares (i.e. 8.68%)

F is the Forecast Profit

Adjustment to the Purchase Price shall be borne by Hua Han solely.

As the amount of the Forecast Profit (the details of which are set out in Appendix III to this prospectus) is more than HK\$90,000,000 and assuming Listing will occur before the release of the 2010 Audited Accounts, the Purchase Price adjustments will not apply. The Purchase Price adjustments will no longer be applicable upon the Listing.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

(iii) *Investment price adjustment*

In the event that the unit cost (“**Investment Price**”) per Share immediately prior to Listing held by all the First Strategic Investors (which is calculated by the aggregate of the Subscription Price and the Purchase Price (both subject to adjustment) divided by the total number of the Subscription Shares and the Sale Shares (or the total number of Shares held by all the First Strategic Investors as a result of the pre-listing share swap of our Group for the purpose of and immediately prior to Listing)) (“**Investment Shares**”) exceeds 70% of the final Offer Price per Share, Hua Han and Magic Holdings shall reimburse to the First Strategic Investors such amount representing an adjustment to the Investment Price in accordance with the following formula:-

$$(B - (A \times 70\%)) \times C$$

Where

A is the Offer Price

B is the Investment Price

C is the Investment Shares

Should the Investment Price adjustment be applicable, the amount of Investment Price adjustment shall be shared between Hua Han and Magic Holdings in the proportion which equals to the number of Sale Shares bear to the number of Subscription Shares (i.e. 1887:1739). However, based on the expected Offer Price of not lower than HK\$2.40 per Offer Share, the Investment Price per Share would not exceed 70% of the Offer Price. Hence the Investment Price adjustments will no longer be applicable upon the Listing.

Discount to Offer Price

The cost of each Share to be held by each of the First Strategic Investors immediately upon completion of the Capitalisation Issue and the Global Offering (without taking into account any adjustment to the Subscription Price, the Purchase Price or the Investment Price) is approximately HK\$1.37. Based on the cost per Share of HK\$1.37 and the mid-point of the Offer Price of HK\$2.85, the discount to the Offer Price of each Share held by the First Strategic Investors is approximately 51.9%.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Major terms of the Second SI Investment Agreement

Date:

25 March 2010

Parties:

Vendor of the Atlantis Sale Shares: the Management Shareholders (namely Mr. Tang, Mr. She, Mr. Luo and Mr. Ho)

Purchaser of the Atlantis Sale Shares: Atlantis Healthcare

Sale and Purchase of the Atlantis Sale Shares

Pursuant to the Second SI Investment Agreement, Atlantis Healthcare purchased and the Management Shareholders sold an aggregate of 434 Atlantis Sale Shares to Atlantis Healthcare at the Atlantis Purchase Price (subject to adjustment), as to 188 shares by Mr. She, 144 shares by Charm Magna Limited (a company holding such shares on trust for Mr. Tang), 58 shares by Mr. Luo and 44 shares by Mr. Ho.

Atlantis Purchase Price and adjustment

Atlantis Purchase Price

The Atlantis Purchase Price paid by Atlantis Healthcare to the Management Shareholders for the purchase of the Atlantis Sale Shares was an aggregate amount of HK\$22,770,000 (subject to adjustment).

The amount of Atlantis Purchase Price paid by Atlantis Healthcare is set out opposite its name in column (5) of the table set out in the section headed "Number of Subscription Shares and Sale Shares and Subscription Price and Purchase Price" below.

Basis of determination of the Atlantis Purchase Price

The Atlantis Purchase Price was determined after arm's length commercial negotiation between the parties to the Second SI Investment Agreement based on the past performance of the our Group.

Adjustment to Atlantis Purchase Price

The Atlantis Purchase Price is subject to adjustment having regard to (i) the Actual Net Earnings; or (ii) (if and in the event that the Listing shall occur before the release of the 2010 Audited Accounts), the Forecast Profit.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

In the event that the Actual Net Earnings or the Forecast Profit is less than HK\$90,000,000, Atlantis Healthcare shall be entitled to adjustment to Atlantis Purchase Price in accordance with the following formula:-

$$(A - B) \times C \times D$$

or

$$(A - F) \times C \times D$$

where:

A is HK\$90,000,000

B is the Actual Net Earnings

F is the Forecast Profit

C is 12.65

D is percentage of the Atlantis Sale Shares to the total issued share capital of Magic Holdings (i.e. 2%)

Adjustment to the Atlantis Purchase Price shall be borne by the Management Shareholders (in proportion to the number of Atlantis Sale Shares sold by each of them).

As the amount of the Forecast Profit (the details of which are set out in Appendix III to this prospectus) is more than HK\$90,000,000 and assuming Listing will occur before the release of the 2010 Audited Accounts, the Atlantis Purchase Price adjustments will not apply. The Atlantis Purchase Price adjustments will no longer be applicable upon the Listing.

Discount to Offer Price

The cost of each Share to be held by Atlantis Healthcare immediately upon completion of the Capitalisation Issue and the Global Offering (without taking into account any adjustment to the Atlantis Purchase Price) is approximately HK\$2.00. Based on the cost per Share of approximately HK\$2.00 and the mid-point of the Offer Price of HK\$2.85, the discount to the Offer Price of each Share held by Atlantis Healthcare is approximately 29.8%.

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Number of Subscription Shares and Sale Shares and Subscription Price and Purchase Price

The table below sets out the number of Subscription Shares and Sale Shares held by each of the Strategic Investors immediately upon completion of the Strategic Investment and Listing and the Subscription Price and Purchase Price paid by each of them:

Column (1)	Column (2)	Column (3)	Column (4)	Column (5)	Column (6)	Column (7)	Column (8)	Column (9)	Column (10)	Column (11)
Strategic Investor	Number of Subscription Shares subscribed by the Strategic Investors (a)	Subscription Price paid	Number of Sale Shares purchased by the Strategic Investors (b)	Purchase Price paid	Shares and Sale Shares acquired by the Strategic Investors (a) + (b)	Percentage of shareholding in the enlarged issued share capital of Magic Holdings immediately upon completion of the Strategic Investment	Number of Shares of the Strategic Investors upon Listing (Note)	Percentage of shareholding in the Company upon Listing (Note)	Approximate cost per Share paid by the Strategic Investors (Note)	Discount to the Offer Price based on the mid-point of the Offer Price of HK\$2.85 before any Subscription Price, Purchase Price or Atlantis Purchase Price adjustments
Atlantis	535	HK\$19,197,240	1,134	HK\$40,687,441	1,669	7.68%	43,761,745	5.47%	HK\$1.37	51.9%
Cinda	669	HK\$24,005,520	419	HK\$15,033,118	1,088	5%	28,527,728	3.57%	HK\$1.37	51.9%
Good Record	535	HK\$19,197,240	334	HK\$11,983,441	869	4%	22,785,474	2.85%	HK\$1.37	51.9%
Atlantis Healthcare	N/A	N/A	434	HK\$22,770,000	434	2%	11,379,627	1.42%	HK\$2.00	29.8%
Total	1,739	HK\$62,400,000	2,321	HK\$90,474,000	4,060	18.68%	106,454,574	13.31%		

Note: The calculation and percentages are arrived at based on 800,000,000 Shares expected to be in issue immediately upon completion of the Global Offering but without taking into account any Shares which may be issued and allotted pursuant to the exercise of the Over-allotment Option.

The First SI Investment Agreement was completed on 13 November 2009, whereas the Second SI Investment Agreement was completed on 25 March 2010.

Upon completion of the Reorganisation and pursuant to a pre-listing share swap of the Group for the purpose of and immediately prior to Listing, the above 4,060 Magic Holdings shares held by the Strategic Investors will be exchanged into 106,454,574 Shares, representing approximately 53.2% of the Offer Shares and approximately 13.3% of the Company's share capital immediately after the Global Offering (assuming the Over-allotment Option is not exercised). Each of the Strategic Investors is an Independent Third Party and will be regarded as a member of the public after the Listing pursuant to Rule 8.24 of the Listing Rules.

Other major terms of the SI Investment Agreements

Other rights of the Strategic Investors under the SI Investment Agreements include the following:

As for the First Strategic Investors

If Listing occurs before the release of the 2010 Audited Accounts and the Actual Net Earnings as shown in the 2010 Audited Accounts are less than HK\$65,000,000, the First Strategic Investors shall be

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

entitled to exercise a put option by directing Hua Han and/or Magic Holdings and/or the Management Shareholders (namely Mr. Tang, Mr. She, Mr. Luo and Mr. Ho) to purchase all or part of our Shares then held by the First Strategic Investors (in proportion to the shareholding interest of Hua Han and the Management Shareholders in our Company on the date of delivery of the option notice) at the price which is the sum of (i) the Subscription Price or Purchase Price (as the case may be and subject to adjustment) or a pro-rata amount of it and (ii) a premium that will yield the relevant First Strategic Investor a return of 15% per annum over the Subscription Price or Purchase Price (as the case may be) or a pro-rata amount of it. For the ten months ended 30 April 2010, the audited combined profit attributable to equity holders of our Company was approximately HK\$102.7 million.

In addition to the put option as described in the above paragraph, rights granted to the First Strategic Investors under the First SI Investment Agreement also include:

1. Except for certain approved dilutive events as stipulated under the First SI Investment Agreement, Magic Holdings shall not, and Hua Han agreed not to cause Magic Holdings to, issue or sell any equity securities of any of the members of the Group.
2. Hua Han shall not, and Magic Holdings shall procure the Management Shareholders not to sell part or all of the shares of Magic Holdings (or the Shares, as the case may be) that would result in the aggregate shareholding interests of Hua Han and the Management Shareholders becoming less than 50.1%.
3. Each of the First Strategic Investors shall be entitled to co-sales rights (under the same terms and conditions (other than the number of the shares to be disposed of)) for such number of shares of Magic Holdings (or the Shares, as the case may be) in proportion to their respective shareholdings if Hua Han intends to sell any shares of Magic Holdings or the Shares to any third parties.
4. On occurrence of an event of default (among which the Company failing to list on the Stock Exchange or any recognized stock exchange by 31 December 2010 or such later date as agreed in writing by the First Strategic Investors, shall constitute an event of default) as stipulated in the First SI Investment Agreement, the First Strategic Investors shall be entitled to exercise a put option by directing Magic Holdings and the Company (as the case may be) to purchase all or part of the Subscription Shares and the Sale Shares (or the Shares, as the case may be) respectively at the price which is the sum of (i) the Subscription Price or the Purchase Price (as the case may be and subject to adjustment) or a pro-rata amount of it and (ii) a premium that will yield the relevant First Strategic Investor a return of 15% per annum over the Subscription Price or the Purchase Price (as the case may be) or a pro-rata amount of it.

All such rights as set out in paragraphs 1 to 4 above shall be extinguished automatically and cease to have effect on and after the date of Listing. Save as disclosed above, there was no other special right granted to the First Strategic Investors.

As for Atlantis Healthcare

If Listing occurs before the release of the 2010 Audited Accounts and the Actual Net Earnings as shown in the 2010 Audited Accounts shall be less than HK\$65,000,000, Atlantis Healthcare shall be

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

entitled to exercise a put option by directing the Management Shareholders (in proportion to the number of Atlantis Sale Shares sold by each of them) to purchase all or part of our Shares at the price which is the sum of (i) the Atlantis Purchase Price (subject to adjustment) or a pro-rata amount of it and (ii) a premium that will yield Atlantis Healthcare a return of 15% per annum over Atlantis Purchase Price or a pro-rata amount of it. For the ten months ended 30 April 2010, the audited combined profit attributable to equity holders of our Company was approximately HK\$102.7 million.

In addition to the put option as described in the above paragraph, rights granted to Atlantis Healthcare under the Second SI Investment Agreement also include:

1. Except for certain approved dilutive events as stipulated under the Second SI Investment Agreement, Magic Holdings shall not issue or sell any equity securities of any of the members of the Group.
2. Magic Holdings shall procure the Management Shareholders not to sell part or all of the shares of Magic Holdings (or the Shares, as the case may be) that would result in the aggregate shareholding interests of Hua Han and the Management Shareholders becoming less than 50.1%.
3. Atlantis Healthcare shall be entitled to co-sales rights (under the same terms and conditions (other than the number of the shares to be disposed of)) for such number of shares of Magic Holdings (or the Shares, as the case may be) in proportion to its shareholding if the Management Shareholders intend to sell any shares of Magic Holdings or the Shares to any third parties.
4. On occurrence of any one of the events of default (among which the Company failing to list on the Stock Exchange or any recognized stock exchange by 31 December 2010 or such later date as agreed in writing by Atlantis Healthcare shall constitute an event of default) as stipulated in the Second SI Investment Agreement, Atlantis Healthcare shall be entitled to exercise a put option by directing the Management Shareholders to purchase all or part of the Atlantis Sale Shares (or the Shares, as the case may be) at the price which is the sum of (i) the Atlantis Purchase Price (subject to adjustment) or a pro-rata amount of it and (ii) a premium that will yield Atlantis Healthcare a return of 15% per annum over the Atlantis Purchase Price or a pro-rata amount of it.

All such rights as set out in paragraphs 1 to 4 above shall be extinguished automatically and cease to have effect on and after the date of Listing. Save as disclosed above, there was no other special right granted to Atlantis Healthcare.

Lock-up period

The Shares held by each of the Strategic Investors shall be subject to a lock-up period of 6 months from the Listing Date.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Use of proceeds from the strategic investment

The proceeds to us from the Strategic Investment were about HK62,400,000, among which 50% was to be used for projects regarding the expansion of sale channels and promotion of products, 20% was to be used in the investment in joint venture project of the MG JV Group, 20% for acquisition of land by MG Bio-tech, and the remaining 10% as general working capital of our Company.

Information about the Strategic Investors

Atlantis is an exempted open ended investment company with a limited liability in the Cayman Islands whose beneficial owners are its investors. It is an investment company with the principle objective to seek to achieve long term capital appreciation by investing in listed and unlisted companies that in the opinion of its investment manager will benefit from China's economic growth.

Atlantis Healthcare is a sub-fund of Atlantis International Umbrella Fund which is an open-ended umbrella unit trust established as an undertaking for collective investment in transferable securities. Atlantis Healthcare invests principally in securities issued by companies listed on recognised exchanges in Hong Kong, the PRC, Singapore, the United States and the United Kingdom principally engaged in pharmaceutical, bio-technology, medical devices, healthcare providers and ownership or management of hospitals/nursing homes, health maintenance organizations in the PRC, or in other health related industries in the PRC. Units of Atlantis Healthcare are listed on the Irish Stock Exchange, and its beneficial owners are its unit holders or investors. The objective of Atlantis Healthcare is to seek long term capital appreciation by investing in health related industries in China. The delegated sub-investment managers who have discretion to manage Atlantis Healthcare are Atlantis Investment Management (HK) Limited and Atlantis Investment Management Limited. Both Atlantis and Atlantis Healthcare have a common fund manager, Ms Liu Yang, who manages each account according to the investment objectives and policies of each fund respectively.

Cinda is a company incorporated in Hong Kong with limited liability and its principal business is investment holding. Cinda is a wholly-owned subsidiary of Well Kent International Investment Company Limited (華建國際投資有限公司), which in turn is wholly owned by China Cinda Asset Management Corporation Ltd. (“**China Cinda**”) (中國信達資產管理股份有限公司), the shareholder of which is the Ministry of Finance of the PRC. China Cinda is principally engaged in investment in equities in a variety of companies including companies engaging in sales and distribution of retail goods in the PRC.

Good Record is a company incorporated in the BVI with limited liability and is wholly owned by Mrs. Chu Yuet Wah. Its principal business is investment holding and its principal investment asset is 869 shares of Magic Holdings.

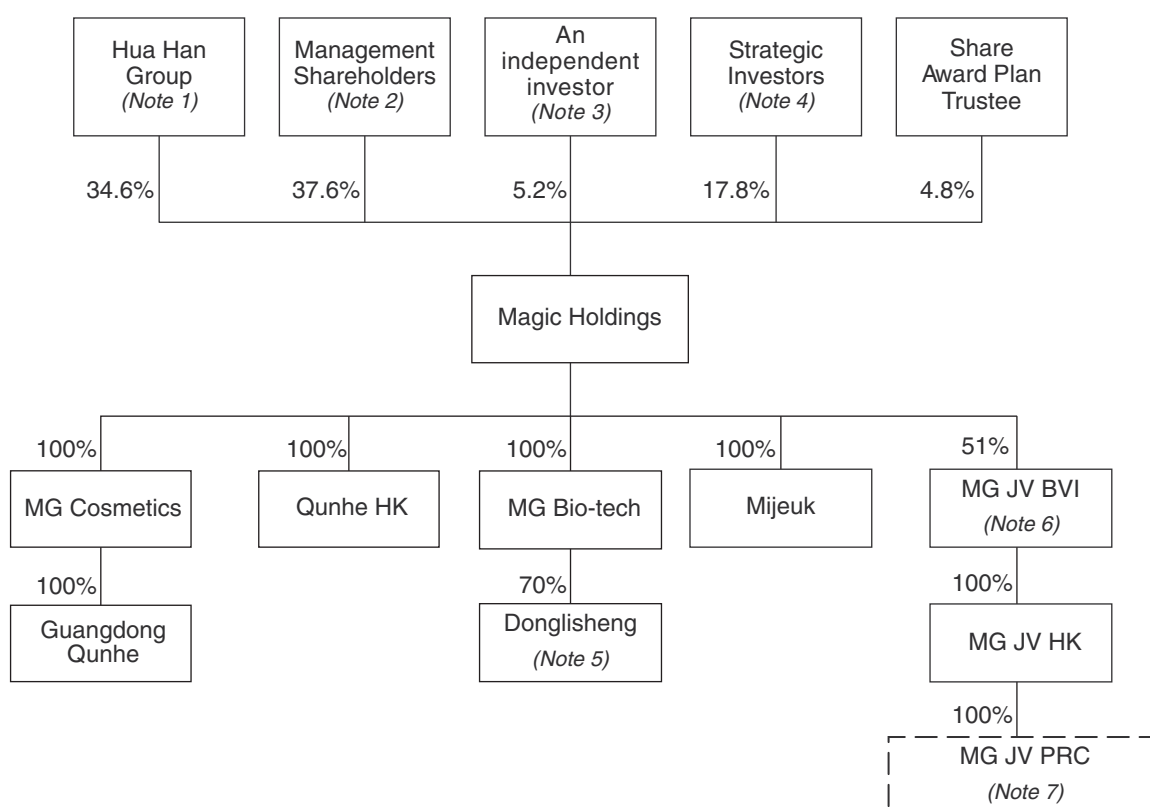
At the relevant time, the Group was looking for strategic investors to invest into the Group to broaden the Group's shareholding base and financial resources, as it was the Group's business strategy to position itself as an international player in the skincare and cosmetics industry. The Group considered that the support from the Hua Han Group in the future development of the Group's business (in particular, where the Group was facing increasing international competition in skincare and cosmetics market) may be limited. Owing to the specialised business of the Hua Han Group in pharmaceutical products, it was expected that the support from Hua Han Group in the facial masks business would be insufficient to

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satisfy the Group's future needs. The Group therefore looked for other investors, and eventually entered into the SI Investment Agreement with the Strategic Investors as they possess resources that the Group may benefit from, for example, Atlantis Healthcare is a fund investing in, among others, health related industries in the PRC whereas Atlantis is an investment company with a portfolio of investment in listed and unlisted companies. The Group may benefit from Atlantis' and Atlantis Healthcare's connection with the companies in which Atlantis or Atlantis Healthcare invested. Cinda is an indirect wholly owned subsidiary of China Cinda which is an investment company with investment in a variety of companies including companies engaging in sales and distribution of retail goods in the PRC and such network may also bring commercial benefit to the Group. Further, Mrs. Chu Yuet Wah, the beneficial owner of Good Record and one of the beneficial owners of Kingston Securities Limited, has close connection with professional and institutional investors and may bring investment opportunities to the Group in the future. The Group therefore entered into the SI Investment Agreement with the Strategic Investors with a view that they may bring potential strategic benefits to the Group.

SHAREHOLDING STRUCTURE

The following diagram illustrates the structure of the Group immediately before the completion of the Reorganisation:



 Company to be established

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

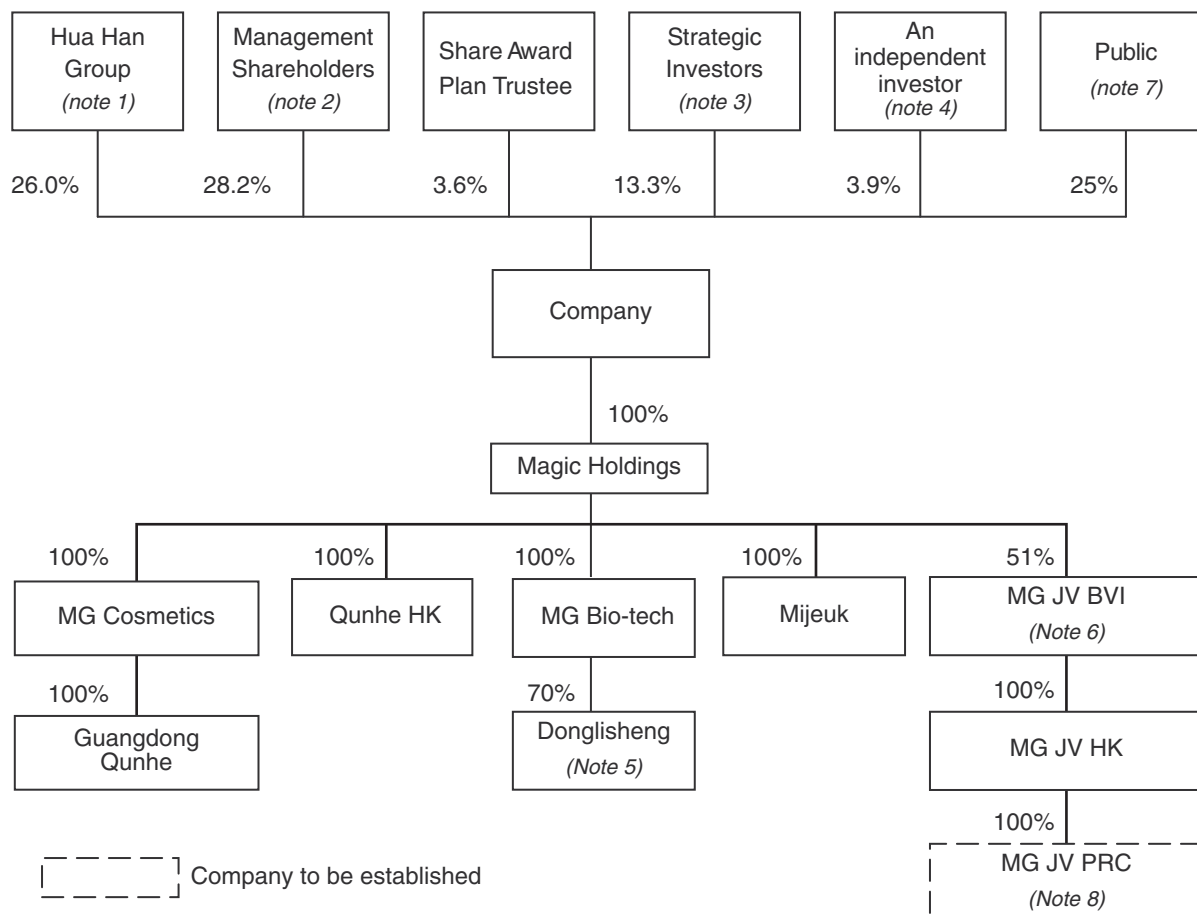
Notes:

- 1. The shares of Magic Holdings are held by Queenherb, a direct wholly-owned subsidiary of Hua Han.*
- 2. The shares of Magic Holdings are held by the Management Shareholders as to approximately 12.48% by Mr. Tang (as to approximately 8.74% through MG Company Limited, a company wholly-owned by him, and as to approximately 3.74% through Charm Magna Limited, a company wholly-owned by an Independent Third Party on trust in his favour); approximately 16.22% by Mr. She; approximately 4.99% by Mr. Luo and approximately 3.94% by Mr. Ho.*
- 3. The shares of Magic Holdings are held by Profit Avenue Limited, which in turn is wholly owned by Ms. Zhu Yingfang, an Independent Third Party.*
- 4. The shares of Magic Holdings are held by the Strategic Investors as to approximately 7.29% by Atlantis, approximately 4.75% by Cinda, approximately 3.80% by Good Record and 1.90% by Atlantis Healthcare.*
- 5. The remaining 30% equity interest in Donglisheng is held by Mr. Zhao Lizhi, a minority shareholder, a director and a member of the senior management of Donglisheng. Mr. Zhao is a Connected Person by virtue of being a substantial shareholder of Donglisheng, a non-wholly owned subsidiary of the Company.*
- 6. The remaining 49% equity interest in MG JV BVI is held by Hanbul, a minority shareholder of MG JV BVI and a joint venture partner of the Group. Hanbul is a Connected Person by virtue of being a substantial shareholder of MG JV BVI, a non-wholly owned subsidiary of the Company. Hanbul is owned as to approximately 55.61% by Mr. Lim Byung Chul, 29.08% by Mr. Lim Hyun Chul and 15.31% by Mr. Lim Sung Chul. Each of Mr. Lim Byung Chul and Mr. Lim Hyun Chul is a director of MG JV BVI and therefore a Connected Person. Mr. Lim Sung Chul is an associate of Mr. Lim Byung Chul and Mr. Lim Hyun Chul and is therefore a Connected Person.*
- 7. MG JV PRC is yet to be established pursuant to the Magic-Hanbul JV Agreement. It is expected that MG JV PRC will be established by March 2011 upon obtaining relevant approvals from the regulatory authorities of the PRC.*

Immediately before completion of the Reorganisation, 5% equity interest in Magic Holdings were allotted and issued to the Share Award Plan Trustee, among which shares representing approximately 0.2% of the shares of Magic Holdings (as enlarged by the allotment and issue of such 5% shares under the Share Award Plan) were transferred to Mr. Ho. The remaining 4.8% of the shares of Magic Holdings were held by the Share Award Plan Trustee in accordance with the rules of the Share Award Plan, out of which shares representing approximately 2.66% of the share capital of Magic Holdings as enlarged by the allotment and issue of such 5% shares under the Share Award Plan have been awarded to senior management and employees of our Group and will be transferred to them by the Share Award Plan Trustee in accordance with the terms and conditions of such awards and the rules of the Share Award Plan. For further details of the Share Award Plan, please refer to the paragraph headed "Share Award Plan" in Appendix VI to this prospectus.

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The following diagram illustrates the structure of the Group immediately following the completion of the Reorganisation, the Capitalisation Issue and the Global Offering (without taking account any Shares which may be issued and allotted pursuant to the exercise of the Over-allotment Option):



Notes:

1. The Shares are held by Queenherb, a direct wholly-owned subsidiary of Hua Han.
2. The Shares are held by the Management Shareholders as to approximately 9.4% by Mr. Tang (as to approximately 6.6% through MG Company Limited, a company wholly-owned by him, and as to approximately 2.8% through Charm Magna Limited, a company wholly-owned by an Independent Third Party on trust in his favour); approximately 12.2% by Mr. She; approximately 3.7% by Mr. Luo and approximately 2.9% by Mr. Ho.
3. The Shares are held by the Strategic Investors as to approximately 5.5% by Atlantis, approximately 3.6% by Cinda, approximately 2.8% by Good Record and 1.42% by Atlantis Healthcare.
4. The Shares are held by Profit Avenue Limited, which in turn is wholly owned by Ms. Zhu Yingfang, an Independent Third Party.
5. The remaining 30% equity interest in Donglisheng is held by Mr. Zhao Lizhi, a minority shareholder, a director and a member of the senior management of Donglisheng. Mr. Zhao is a Connected Person by virtue of being a substantial shareholder of Donglisheng, a non-wholly owned subsidiary of the Company.
6. The remaining 49% equity interest in MG JV BVI is held by Hanbul, a minority shareholder of MG JV BVI and a joint venture partner of the Group. Hanbul is a Connected Person by virtue of being a substantial shareholder of MG JV BVI, a non-wholly

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

owned subsidiary of the Company. Hanbul is owned as to approximately 55.61% by Mr. Lim Byung Chul, 29.08% by Mr. Lim Hyun Chul and 15.31% by Mr. Lim Sung Chul. Each of Mr. Lim Byung Chul and Mr. Lim Hyun Chul is a director of MG JV BVI and therefore a Connected Person. Mr. Lim Sung Chul is an associate of Mr. Lim Byung Chul and Mr. Lim Hyun Chul and is therefore a Connected Person.

- 7. Not including the Strategic Investors who are regarded as members of the public.*
- 8. MG JV PRC is yet to be established pursuant to the Magic-Hanbul JV Agreement. It is expected that MG JV PRC will be established by March 2011 upon obtaining relevant approvals from the regulatory authorities of the PRC.*

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OVERVIEW

Our 美即 MEG brand is the leading brand in the facial masks industry in China. According to the CTR Reports, our 美即 MEG brand had the largest market share of 15.1% in the facial mask industry in China in 2009 in terms of retail sales. We are principally engaged in the research and development, manufacture and sales and marketing of facial masks and other skincare products in China.

We focus predominantly on and offer a diversified mix of facial mask products with different characteristics to cater for different skin types and satisfy consumer needs in China. As of 30 April 2010, we offered 11 series and 141 types of facial mask products under the brand of 美即 MEG. In recognition of our strong brand name and popularity among consumers, we have received various awards and certificates, including the “最佳部門銷售獎 — 全能面膜類 (Best Division Selling — All Purpose Facial Masks)” by Watsons in 2006, “HWB 最佳品類大獎 — 全能面膜獎 (Best Category of Products — All Purpose Facial Masks)” by Watsons in 2007 and “最具創意包裝設計 — 美即漢方面膜 (Most Creative Packaging Design — Magic Chinese Herbal Facial Masks)” by Watsons in 2009. Leveraging on our leading position in the PRC facial mask market and our established distribution and retail network in China, we are pursuing a multi-brand strategy and diversifying into other skincare products.

We sell all our products through an established network of distributors and retailers in China. For the three years ended 30 June 2007, 2008 and 2009 and the ten months ended 30 April 2009 and 2010, 69.3%, 71.8%, 83.1%, 82.3% and 92.9% of our revenue was derived through our distributors and 30.7%, 28.2%, 16.9%, 17.7% and 7.1% of our revenue was derived through our retailers. As of 30 April 2010, we had 75 distributors and one retailer spread over 21 provinces, two autonomous regions, and four municipalities in China. We sell most of our products to our distributors who then sell directly to retailers such as personal care chain stores, hypermarkets, supermarkets and cosmetics speciality stores. As of 30 April 2010, our products were distributed by our distributors to 3,330 points of sale in China. When selecting distributors, we generally require our distributors to have an extensive distribution network, sufficient warehousing facilities, stable financial condition, good creditworthiness, strong delivery capabilities and compatibility with our business strategies. We also sell our products directly to our retailers, which are mainly hypermarkets and supermarkets. We generally require our retailers to have a well-established retail network, an inventory management system, stable financial condition and compatibility with our business strategies. We generally enter into distribution agreements with our distributors and merchandise contracts with our retailers for a term of 12 months which may be renewed on an annual basis.

As of 30 April 2010, we had 881 salespersons hired through an Independent Third Party employment agency actively promoting and selling our products on the ground and interfacing with consumers at our points of sale throughout China. Building on our leading position in the facial mask industry in China, we plan to further expand our market coverage outside China to Hong Kong, Macau, Taiwan and the south-east Asian region by selling directly to distributors and/or retailers located in these markets within the next two to three years.

All of our operations are in China, which is one of the fastest growing economies in the world with retail sales of consumer goods growing at a CAGR of 18.5% from 2007 to 2009. During the same period, according to the ZPI Report, sales of skincare products in China outpaced retail sales of consumer goods

BUSINESS

in China and grew at a CAGR of 19.7%, while facial mask sales in China grew at a CAGR of 31.6%, outpacing the growth rate of retail sales of consumer goods and the skincare industry in China. Leveraging on our brand and leading position in the PRC facial mask market, we believe that we are well positioned to capture this fast growing facial mask industry.

We have enjoyed rapid growth during the Track Record Period. Our revenue and net profit grew at CAGRs of 69.2% and 75.1%, respectively over the three year period ended 30 June 2009. For the three years ended 30 June 2007, 2008 and 2009 and the ten months ended 30 April 2009 and 2010, our revenue was HK\$130.9 million, HK\$252.8 million, HK\$374.6 million, HK\$298.0 million and HK\$509.2 million, respectively while our net profit for the same periods was HK\$21.6 million, HK\$34.1 million, HK\$66.2 million, HK\$48.7 million and HK\$101.8 million, respectively.


COMPETITIVE STRENGTHS

We believe that our success to date are attributable to a combination of our competitive strengths, as set out below:

Well positioned to capture the fast-growing facial mask industry in China

Rapid urbanisation in China has led to substantial growth in the demand for consumer products, with retail sales of consumer goods in the PRC increasing from RMB8.9 trillion in 2007 to RMB12.5 trillion in 2009, representing a CAGR of 18.5%. One of the notable areas of retail sales growth during this period has been the skincare industry in the PRC, which increased at a CAGR of 19.7% between 2007 and 2009, from RMB67.0 billion to RMB96.0 billion.

We consider that, as more and more people focus on their grooming practices and pay more attention to their personal appearance, consumers have increased their purchase of skincare products. The use of facial masks has also become increasingly entrenched in individual's skincare routines. We also consider that as people increase their purchase of facial mask products, these products have become fast moving consumer goods in the PRC. The facial mask industry in China grew at a CAGR of 31.6%, from RMB2.6 billion to RMB4.5 billion between 2007 and 2009, outpacing the growth rate of the skincare industry in China.



We have been part of the fast-growing facial mask industry in China since 2005 and the 美即  brand is now successfully positioned at its forefront and ranked first with a 15.1% share of the facial mask industry in China in 2009 in terms of retail sales, according to the CTR Reports. Our revenue grew at a CAGR of 69.2% from 2007 to 2009 from HK\$130.9 million to HK\$374.6 million, outpacing the CAGR of 31.6% for the facial mask industry in China for the same period.

We attribute our rapid ascension to such a strong position within the facial mask industry in China principally to strong brand recognition, extensive and established sales channels, effective marketing and promotional activities, strong product development capability and increasing production capacity. We believe the growth trend of the facial mask industry in China will continue and our leading position in the facial mask industry puts us in a prime position to capitalise on this increase.

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Leader of the facial mask industry in China and strong brand recognition

We focus predominantly on and offer a diversified mix of facial mask products with different characteristics to cater for different skin types and satisfy consumer needs in China. We launch new product series continuously with different functions and formulae to enrich our product mix. As of 30 April 2010, we had 11 series and 141 types of facial mask products with different functions including whitening, oil and acne control, anti-wrinkle and replenishing to satisfy consumers needs. Please refer to the section headed “Business — Products” in this prospectus for further details.

According to the CTR Reports, our brand enjoys a strong brand loyalty compared with our competitors and achieved in 2009 a brand loyalty rate of 81.3% (calculated as total expenditure on our products divided by total expenditure on facial mask products by our product users which was subject to the survey conducted for the CTR Reports) as compared with the average rate of 59.8% for thirty eight brands, including 美即 , of facial mask products. These thirty eight brands are the top selling brands of facial masks in the PRC. We consider that as more and more people in China are using facial mask products as part of their skincare routine, we will continue to increase the consumer awareness of our 美即  brand and products through brand-building efforts and aggressive marketing and promotional activities.

We believe that our brand is key to the success of our business. We have engaged an international brand advertising company, Ogilvy & Mather, to build, manage and promote our brands in accordance with our business strategies. We market our brands and products through various channels and methods including (i) organising frequent in-store marketing and promotional activities; (ii) advertising in magazines, the Internet and public transport; (iii) television commercials; and (iv) roadshows.

In recognition of our strong brand name and popularity among consumers, we have received various awards and certificates, including the “最佳部門銷售獎 — 全能面膜類 (Best Division Selling — All Purpose Facial Masks)” by Watsons in 2006, “HWB 最佳品類大獎 — 全能面膜獎 (Best Category of Products — All Purpose Facial Masks)” by Watsons in 2007 and “最具創意包裝設計 — 美即漢方面膜 (Most Creative Packaging Design — Magic Chinese Herbal Facial Masks)” by Watsons in 2009.

We are able to successfully leverage off our high level of brand recognition for the purposes of effectively responding to market changes and proactively expanding our product ranges, both of which have been critical to the success of our business.

Extensive and multi-faceted sales channels


We sell our products through an extensive and established network of distributors and retailers in China. As of 30 June 2007, 2008 and 2009, we had 24, 32 and 59 distributors and three, two and two retailers, respectively. As of 30 April 2010, we had 75 distributors and one retailer spread over 21 provinces, two autonomous regions and four municipalities in China. As of 30 April 2010, our products were distributed by our distributors to 3,330 points of sale in China. Such points of sale are mainly comprised of personal care chain stores, hypermarkets, supermarkets and cosmetics speciality stores, which enable our products and our brands to reach different segments of the consumer market effectively. We strive to maintain good relationship with retailers of our products and are well-positioned to continue to leverage on the expansion by such retailers of their business and points of sale in China.

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We require our distributors to have an extensive distribution network, sufficient warehousing facilities, stable financial condition, good creditworthiness, strong delivery capabilities and compatibility with our business strategies and we select our retailers on the basis of retail network, an inventory management system, stable financial condition and compatibility with our business strategies to ensure that their addition to our network brings positive sales results.

As of 30 April 2010, we had 881 salespersons hired through an Independent Third Party employment agency actively promoting and selling our products on the ground and interfacing with consumers at our points of sale throughout China. We believe that the strength and depth of our network of distributors and retailers, coupled with our team of salespersons well trained by us and familiar with our products and marketing strategies, provides us with strong coverage for our products in China and gives us the ability to roll out new products and brands efficiently and effectively. We believe this kind of marketing initiative will continue to facilitate the growth of sales of our products.

Strong product development capabilities

We believe that the strength and depth of our product development functions have been and will continue to contribute to the success of our business and have enabled us to regularly introduce to the market new products with different characteristics to cater for different skin types and satisfy consumer needs. As of 30 April 2010, we offered 11 series and 141 types of facial mask products under the 美即  brand.

Our product development process is market-oriented and supported by our research and development, sales and marketing and production teams. We visit retailers of our products and carry out market research from time to time in order to gather first-hand market information about our products and consumer needs prior to formulating plans for new product launches. We also require our distributors to provide sales reports in order for us to analyse the market demands and trends. Based on our findings, our product development team formulates our plans for new product launches and communicate such plans to our research and development, production and sales and marketing teams.

We have a dedicated team of 13 experienced researchers responsible for advancing and diversifying our product ranges and improving the quality of our products. Six of these researchers have experience in the skincare design and development business for over five years. We also began to cooperate with a research institution, Beijing Technology & Business University (北京工商大學) for research in January 2010. Professors and researchers of this university are leading professionals in the area of fine chemicals. In January 2010, we entered into cooperation agreements with Beijing Technology & Business University (北京工商大學). Under the terms of the agreements, the university agreed to develop theories and produce research reports on the use of Chinese herbs in cosmetic products and provide us with technical support in the development and production of Chinese herbal cosmetic products. The university also agreed to provide product testing services, including analysis on the functions and safety of our products to ensure compliance with our product specifications. While we own all intellectual property rights arising out of the cooperation arrangements and have exclusive rights to the profits generated from them, we also bear the costs of such research and development.

BUSINESS

Our strong product development capabilities have enabled us to successfully anticipate market developments and trends in China. We believe our brand recognition and position in the facial mask industry in China is partly due to our ability to continuously, and quickly, develop new products to meet the changing demands of consumers. We therefore believe that our future product development activities will continue to contribute to our growth and profitability.

An experienced and progressive management team

We have an experienced and dedicated management team with substantial operational and management expertise, with most of our core management team having many years of management experience in sales and marketing and in the skincare industry.

We believe the extensive knowledge and experience of our management have helped us achieve the successful business growth we have seen so far, with revenue growing from HK\$130.9 million for the year ended 30 June 2007 to HK\$374.6 million for the year ended 30 June 2009. We also believe that our management team possesses the vision required to anticipate changes in consumer tastes, develop new products and ensure our future growth.

We have adopted the Share Option Scheme and the Share Award Plan to motivate our Directors, senior management and employees. Please refer to the paragraphs headed “Share Option Scheme” and “Share Award Plan” in Appendix VI to this prospectus for further details. We believe that the interests of our Directors, senior management and employees are concurrent with our Shareholders’ interests and they are appropriately incentivised to create value for our business and our Shareholders.

STRATEGIES

We aim to become a leader in the skincare industry in Asia. We intend to achieve this goal through the following strategies:

Promote and develop the growth of and continue to increase our leading position in the Chinese facial mask industry

According to the CTR Reports, the penetration rate for facial mask products in China was 17.7% in 2009 as compared to the penetration rate of facial skincare products (excluding facial masks) of 83.7% for 2009. We believe that there exists a significant growth potential for the facial mask industry in China.

We are a leader in and ranked first with a 15.1% share of the facial mask industry in China in 2009 in terms of retail sales according to the CTR Reports. We believe that given our leading position and strong reputation of our 美即MCG brand in this industry, we are in an ideal position to promote and drive the expansion of the industry and will benefit significantly from such expansion and development. When the facial mask industry expands and becomes developed, more and more people will use facial mask products and, as a result, increase their purchase of these products. Whilst actively promoting the growth and expansion of the whole industry, we will also strive to increase our existing market share and further enhance our dominant position in the market.

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In order to achieve the above and as elaborated further in this section below, we intend to continue to:

- (i) invest additional resources to increase consumer awareness not only of our existing brand and products but also of the role of facial masks in individuals' skincare routines through aggressive marketing and promotional campaigns;
- (ii) expand and optimise our sales channels;
- (iii) strengthen our product development capability; and
- (iv) increase our production capacity.

Pursue a multi-brand strategy and diversify into other skincare products

During the Track Record Period, we have sold and marketed our facial masks under the 美即 MEG brand. The strong reputation of the 美即 MEG brand, our extensive distribution network and strong research and development capability provide us with a solid platform to launch new products in the skincare industry. Leveraging off these attributes, and in looking to strengthen the brand's leading market position by satisfying the needs of different skin types and consumer needs, we intend to diversify our product range and offer cosmetic and skincare products to the market.

In March 2010, we entered into the Magic-Hanbul JV Agreement, under which, among others, we agreed to market, sell and/or distribute cosmetic and skincare products under the "It's Skin" and "ICS" brands in Greater China. Please refer to the section headed "Business — New products and new product series under development" in this prospectus for further details. These products are planned to be sold via single-branded shops operated by Magic JV Group under the "It's Skin" brand and through cosmetics speciality stores and personal care chain stores under the "ICS" brand.

Further, we have entered into an OEM manufacturing agreement with Hanbul whereby Hanbul agreed to manufacture skincare products under the brand of "Keep UP" in Korea for us. Such products will be sold by the Company through its distribution and retail network in the PRC. We are also developing a new series of Chinese herbal skincare products aimed at the higher-end segment of the consumer market. We plan to market these products under a new brand.

We believe these new product ranges and brands will enable us to offer a more comprehensive product portfolio and differentiate our target markets with unique brand names catering for changing consumer needs. We believe this will, in turn, enhance our market position in both the facial mask industry and the larger skincare industry.

Expand and optimise our sales channels

In order to continue to strengthen our position as the leading brand in the facial mask industry in China, we intend to continuously expand our distribution and retail network to grow our business by expanding further into second and third-tier cities in China. Such cities have seen a rise in consumer spending, giving us a good opportunity to expand the coverage of our sales network. We will also

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continue to expand our distribution and retail network coverage in first-tier cities in China such as Beijing, Shanghai and Guangzhou. We strive to maintain good relationships with retailers of our products and we intend to continue to leverage on the expansion by such retailers of their business and points of sale in China.

Further, we plan to continue to optimise our distributors' resources by working closely with those distributors who have strong marketing capabilities, solid financial resources and similar business strategies. At the same time, we intend to terminate distribution agreements with non-performing distributors. We are committed to improving our distributors' overall capacity, growing our Company's sales network and increasing the localisation of the decision-making process for sales and distribution strategies. By doing so, we hope to improve our ability to anticipate and respond quickly to market changes.

With a view to diversifying our product range, we plan to market, sell and distribute the cosmetic and skincare products via single-branded shops operated by Magic JV Group under the "It's Skin" brand and through cosmetics speciality stores and personal care chain stores under the "ICS" brand.

It is also our intention to improve our relationships with, and increase annual sales at each point of sale throughout our network. In addition, we plan to improve the standard of our salespersons and recruit experienced salespersons and improve the standard of the product and marketing training they receive so as to further facilitate the effectiveness of their marketing skills and therefore further aid the growth of sales of our products.

As well as developing our consumer base in China, we believe there are attractive sales opportunities elsewhere. We therefore intend to leverage off our strong brand recognition in China to further expand our market coverage outside China to Hong Kong, Macau, Taiwan and the south-east Asian region by selling directly to distributors and/or retailers located in these markets within the next two to three years.

Continue to strengthen product development capability


We intend to continue to focus investment on our product and research and development capability as we believe that our long-term success and growth will largely depend on our ability to upgrade our existing products and develop new and innovative products that closely follow consumer needs and market demand. We therefore plan to establish an in-house research and development centre in our new production facility in GHIDZ, with facilities for product testing and to further recruit experienced specialists for our research and development team. In March 2010, we entered into the Magic-Hanbul JV Agreement, under which, among others, we agreed to market, sell and/or distribute cosmetic and skincare products under the "It's Skin" and "ICS" brands in Greater China. As Hanbul agreed to provide technical support and training to the MG JV Group in relation to research and development, manufacturing, sales and marketing, we can strengthen our competitiveness in respect of our research and development, technical knowhow development, brand management, quality control and general management. Further, we intend to continue to strengthen our collaboration with research institutions, such as Beijing Technology & Business University (北京工商大學). We believe that through such initiatives we can ensure that our product development capability continues to be one of our key competitive strengths.

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Expand production capacity

As both the facial mask industry and demand for our specific products are growing rapidly and as we believe that increasing our own production capabilities will provide us with the flexibility and ability to quickly respond to market changes, we plan to expand our production capacity by constructing a new production facility with a gross floor area of approximately 49,764.6 square metres in GHIDZ. The construction is expected to commence in the fourth quarter of 2010 and be completed by the end of 2012. Our new production facility is expected to be equipped with automated high speed production lines. We expect the annual production capacity of our facial mask products at our production facility and the production facility of GZCCL will increase from 86.4 million sheets of peel-off facial mask and 6.9 million packs/tubs of wash-off facial mask for the year ended 30 June 2009 and as of the Latest Practicable Date to 276.5 million sheets of peel-off facial mask and 20.7 million packs/tubs of wash-off facial mask for the year ending 30 June 2013. Please refer to the section headed “Business — Production” for details of our annual production capacity.

PRODUCTS

Our products are predominantly facial masks sold and marketed under the brand of 美即. These products are targeted at female consumers who pay attention to their personal appearance.

Facial mask products

Our 美即 brand had the largest market share of 15.1% in the facial mask industry in China in 2009 in terms of retail sales according to the CTR Reports. As of 30 April 2010, we had 11 series and 141 types of facial mask products in the market to cater for different skin types and satisfy consumer needs.

The following tables set out our total revenue and gross profit margin of facial mask products for the periods indicated:









	Year ended 30 June			Ten months ended 30 April	
	2007	2008	2009	2009	2010
	HK\$ ('000)	HK\$ ('000)	HK\$ ('000)	HK\$ ('000)	HK\$ ('000)
				(unaudited)	
Revenue	<u>130,913</u>	<u>252,814</u>	<u>374,593</u>	<u>298,037</u>	<u>509,235</u>
	Year ended 30 June			Ten months ended 30 April	
	2007	2008	2009	2009	2010
	%	%	%	%	%
				(unaudited)	
Gross profit margin	<u>75.8</u>	<u>75.4</u>	<u>72.0</u>	<u>74.2</u>	<u>76.9</u>

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Our facial mask products can be categorised into (i) peel-off facial masks; and (ii) wash-off facial masks.

Peel-off facial mask products

We sell and market all of our peel-off facial mask products under the brand of 美即^{mei}MG. The following table sets out details of our peel-off facial mask product series as of 30 April 2010:

Brand	Key product series	Year of launch (Financial year)	Retail price	Sample product picture	Product features ⁽¹⁾
美即 ^{mei} MG	Basic	2005	RMB10/ sheet		Available in whitening, replenishing, “special protecting” and anti-wrinkle formats.
美即 ^{mei} MG	TU	2008	RMB78/ pack (5 sheets/ pack)		Designed specifically to cope with the different skincare needs of “T” and “U” facial zones.
美即 ^{mei} MG	Stretch	2008	RMB98/ pack (5 sheets/ pack)		Made of a stretchable, unwoven material that fits particularly closely to the contours of the face.
美即 ^{mei} MG	植活 (“Plant Life”)	2008	RMB98/ pack (5 sheets/ pack)		Contain concentrated “plant life” ingredients unique to 美即 ^{mei} MG.
美即 ^{mei} MG	泉 (“Spring”)	2010	RMB15/ sheet		Gentler facial masks containing concentrated spring water essences, supplemented by natural plant ingredients and using organic cotton cloth masks.
美即 ^{mei} MG	流金絲語 (“Flowing Golden Words”)	2010	RMB25/ sheet		Targeted at the higher end of the market and utilising woven silk membrane masks.
美即 ^{mei} MG	漢草理膚 (“Chinese Herbal Skincare”)	2009	RMB15/ sheet		Designed to treat problem skin and combine traditional beautifying ingredients with modern biological technology.
美即 ^{mei} MG	Eye masks	2008	RMB48/ pack (10 sheets/ pack)		Designed for treatment of skin in the eye area.




Note:

(1) The expiry dates of our products are generally three years from their date of production.

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Wash-off facial mask products

We sell and market all of our wash-off facial mask products under the brand of 美即 MEG. The following table sets out details of our wash-off facial mask product series as of 30 April 2010:

Brand	Key product series	Year of launch (Financial year)	Retail price	Sample product picture	Product features ⁽¹⁾
美即 MEG	Gel facial masks	2007	RMB39/ pack		Refreshing, lightweight texture, especially suitable for oily or combination skin types.
美即 MEG	Cream facial masks	2006	RMB68/ tub		Especially suitable for use in arid and dry environments and by those with dry skin types.
美即 MEG	DIY	2008	RMB65/ pack		The natural ingredients of these facial masks are specially processed to better retain their freshness.

Note:

(1) The expiry dates of our products are generally three years from their date of production.

Other skincare products

Our other skincare products include skincare products such as facial cleansers, toners and creams sold and marketed under the brands of 美即 MEG and Honeyface during the Track Record Period.

The following table sets out our revenue by product categories for the periods indicated:

	Year ended 30 June						Ten months ended 30 April			
	2007		2008		2009		2009		2010	
	HK\$ ('000)	% of total revenue	HK\$ ('000)	% of total revenue	HK\$ ('000)	% of total revenue	HK\$ ('000)	% of total revenue	HK\$ ('000)	% of total revenue
Revenue	(unaudited)									
Peel-off facial mask products	121,623	92.9	215,272	85.2	295,906	79.0	226,923	76.2	450,527	88.5
Wash-off facial mask products	8,588	6.6	36,669	14.5	77,762	20.8	70,406	23.6	57,915	11.3
Other skincare products	702	0.5	873	0.3	925	0.2	708	0.2	793	0.2
Total	130,913	100.0	252,814	100.0	374,593	100.0	298,037	100.0	509,235	100.0

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The following table sets out our sales volume by product categories for the periods indicated:

	Year ended 30 June			Ten months ended 30 April	
	2007	2008	2009	2009	2010
	('000)	('000)	('000)	('000)	('000)
Units sold					
Peel-off facial mask products (sheets)	20,150	34,506	45,500	37,359	67,528
Wash-off facial mask products (packs/tubs)	544	1,341	3,055	2,598	2,436
Other skincare products (bottle)	52	15	16	12	13

The following table sets out the average sales prices to our distributors and retailers by product categories for the periods indicated:

	Year ended 30 June			Ten months ended 30 April	
	2007	2008	2009	2009	2010
	HK\$	HK\$	HK\$	HK\$	HK\$
Average sales prices ⁽¹⁾					
Peel-off facial mask products (per sheet)	6.0	6.2	6.5	6.1	6.7
Wash-off facial mask products (per pack/tub)	15.8	27.4	25.5	27.1	23.8
Other skincare products (per bottle)	13.6	58.5	58.5	57.7	59.2

Note:

(1) Average sales prices represent the revenue for the period divided by the total units sold for the corresponding period.

Our peel-off facial mask products and wash-off facial mask products constituted the two major components of our revenue and they together accounted for 99.5%, 99.7%, 99.8%, 99.8% and 99.8% of our revenue for the three years ended 30 June 2007, 2008 and 2009 and the ten months ended 30 April 2009 and 2010.

The following tables set out our total gross profit and gross profit margin by product categories for the periods indicated:

	Year ended 30 June			Ten months ended 30 April	
	2007	2008	2009	2009	2010
	HK\$ ('000)	HK\$ ('000)	HK\$ ('000)	HK\$ ('000) (unaudited)	HK\$ ('000)
Gross profit					
Peel-off facial mask products	91,567	160,166	207,477	163,392	344,077
Wash-off facial mask products	7,060	30,153	61,899	57,521	46,965
Other skincare products	596	221	278	211	413
Total	<u>99,223</u>	<u>190,540</u>	<u>269,654</u>	<u>221,124</u>	<u>391,455</u>

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	Year ended 30 June			Ten months ended 30 April	
	2007	2008	2009	2009	2010
	%	%	%	%	%
				(unaudited)	
Gross profit margin					
Peel-off facial mask products	75.3	74.4	70.1	72.0	76.4
Wash-off facial mask products . . .	82.2	82.2	79.6	81.7	81.1
Other skincare products	84.9	25.3	30.1	29.8	52.1
Overall	<u>75.8</u>	<u>75.4</u>	<u>72.0</u>	<u>74.2</u>	<u>76.9</u>

New products and new product series under development

We plan to diversify our product range by offering skincare products to be used before and after the application of facial masks. In June 2009, the Group looked for opportunities to expand its business into countries outside of the PRC, whereas Hanbul was at the relevant time planning for expansion of sales of its products into the PRC market. Hanbul is a cosmetic holding company based in Korea. It owns manufacturing plants and a research and development centre and produces a wide variety of products, namely skincare products, cosmetics and cleansing products. It produces cosmetic products for brand names such as ICS, Vatang, Escada, Korance, Sugaray and Creative. After various discussion between the Group and Hanbul, the parties decided that a joint venture would be the most suitable form of cooperation to satisfy the needs of both parties. Therefore, in March 2010, we entered into the Magic-Hanbul JV Agreement, under which, among others, we agreed to market, sell and/or distribute cosmetic and skincare products under the “It’s Skin” and “ICS” brands which will be manufactured by Hanbul in Korea. These products are planned to be sold via single-branded shops operated by the MG JV Group under the “It’s Skin” brand and through cosmetics speciality stores and personal care chain stores under the “ICS” brand. These products are targeted at female consumers who pay attention to their personal appearance.

Under the Magic-Hanbul JV Agreement, as Hanbul agreed to provide technical support and training to the MG JV Group in relation to research and development, manufacturing, sales and marketing, the Group can strengthen its competitiveness in respect of its research and development, technical knowhow development, brand management, quality control and general management. Moreover, Hanbul, with its production capability, could provide a large range of cosmetics and skincare products for sale by the MG JV Group. It is expected that our Group will be able to improve our financial performance and to elevate our status in the cosmetic industry by association with a larger brand and allowing our Group and Hanbul to share knowledge and experience in the industry.

The term of the joint venture arrangement is 50 years and is renewable for another term of 50 years unless either party gives not less than one month prior written notice to terminate the arrangement. Each of us and Hanbul (each an “**Offeree**”) has the pre-emptive rights to buy the shares of the MG JV Group held by the other party (“**Offeror**”), should the Offeror wish to sell to a third party. The Offeror is entitled to sell to a third party on terms not more favourable than those offered to the Offeree if the Offeree decided not to buy the shares of the MG JV Group and the Offeree has the right to buy again if terms for sale to a third party are more favourable than those set out in the previous offer to the Offeree. Further, if either party commits material breach of its obligations or goes into voluntary liquidation, the

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other party shall be deemed to have been offered the shares held by the defaulting party. The Board of the MG JV Group consists of five directors and we have the right to nominate up to a total of three directors. The quorum for all board meetings of the MG JV Group shall not be less than three directors and business decisions of the board shall be reached by a simple majority voting. We are required to contribute 51.0% of the total investment amount of RMB20.0 million to MG JV BVI under the Magic-Hanbul JV Agreement. Therefore the Directors considered that our Group has control over the MG JV Group and each member of the MG JV Group is (or in case of MG JV PRC, will upon its establishment to be) our subsidiary.

Pursuant to an exclusive distribution agreement entered into by MG JV BVI and Hanbul, members of the MG JV Group shall act as the exclusive distributor of Hanbul for cosmetic and skincare products under, among others, the “It’s Skin” and “ICS” brands in Greater China. Hanbul as the supplier shall issue an invoice by end of each month for the products ordered and delivered in that month. For each of the three years ending 30 June 2013, payment of the products shall be made by the MG JV Group as distributor within 60 days after the date of issue of such invoice. The credit terms from 1 July 2013 onwards are to be negotiated between the parties. Under the exclusive distribution agreement, Hanbul as the supplier shall at its own costs effect product liability insurance in respect of the products supplied in such amount as may be appropriate, taking into consideration the normal business or industrial practice.

Our Company has paid the investment cost in August 2010 and the MG JV Group is expected to commence selling, marketing and distributing the cosmetic and skincare products under, among others, the “It’s Skin” and “ICS” brands in early 2011, subject to the proper setting up of MG JV PRC and obtaining of the relevant licences, consents and approvals from the relevant governmental authorities in the PRC by MG JV PRC. The following table sets out details of the products under the brands of “It’s Skin” and “ICS”:

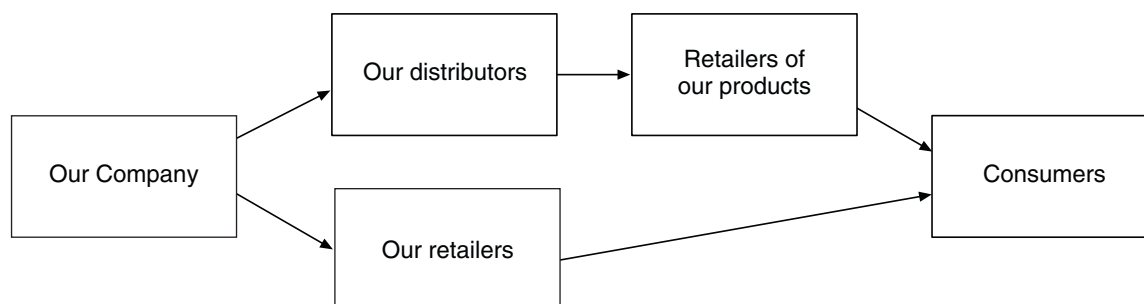
Key product series	Sample product picture
Cosmetic and skincare products under the brand of “It’s Skin”	
Cosmetic and skincare products under the brand of “ICS”	

Further, we have entered into an OEM supply agreement with Hanbul whereby Hanbul agreed to manufacture skincare products under the brand of “Keep UP” in Korea for us. Such products will be sold by us through our distribution and retail network in the PRC.

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DISTRIBUTION AND RETAIL NETWORK

We sell all of our products through our distributors and retailers in China. Our distributors will then sell our products to the retailers. The following diagram illustrates our distribution and retail model:



As of 30 June 2007, 2008 and 2009, we had 24, 32 and 59 distributors and three, two and two retailers, respectively. As of 30 April 2010, we had 75 distributors and one retailer spread over 21 provinces, two autonomous regions, and four municipalities in China, such as personal care chain stores, hypermarkets, supermarkets and cosmetics speciality stores. As of 30 April 2010, our products were distributed by our distributors to 3,330 points of sale in China.

Our extensive distribution and retail network allows us to distribute our products throughout China. We sell most of our products to our distributors in China. Some of our products are also sold in Hong Kong and Macau since 2007 via one of our distributors in China, although this arrangement was not formalised in writing until January 2010. According to the current distribution agreement with this distributor, this distributor is solely responsible for complying with all the laws and regulations of the relevant jurisdictions to which such distributor exports our products and such distributor shall also bear all the costs for complying with such laws and regulations.

The following table sets out our revenue generated through distributors and retailers for the periods indicated:

	Year ended 30 June						Ten months ended 30 April			
	2007		2008		2009		2009		2010	
	HK\$ ('000)	% of total revenue	HK\$ ('000)	% of total revenue	HK\$ ('000)	% of total revenue	HK\$ ('000)	% of total revenue	HK\$ ('000)	% of total revenue
Revenue										
Distributors	90,671	69.3	181,561	71.8	311,330	83.1	245,406	82.3	473,198	92.9
Retailers	40,242	30.7	71,253	28.2	63,263	16.9	52,631	17.7	36,037	7.1
Total	130,913	100.0	252,814	100.0	374,593	100.0	298,037	100.0	509,235	100.0

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For the three years ended 30 June 2007, 2008 and 2009 and the ten months ended 30 April 2009 and 2010, sales to our top five customers represented 65.9%, 81.3%, 63.2%, 63.8% and 53.7%, respectively of our revenue. Sales to our largest customer represented 16.9%, 27.4%, 24.9%, 25.5% and 20.3%, respectively of our revenue for the same periods.

Distributors

We sell our products through an extensive and established network of distributors and retailers in China. We sell most of our products to our distributors who then sell directly to retailers, such as personal care chain stores, hypermarkets, supermarkets and cosmetics speciality stores. To the best of our knowledge and belief, none of our points of sale is owned or managed by our distributors. This distribution channel allows us to increase the penetration of our products and launch new products to the market within a short period of time. During the Track Record Period and as of the Latest Practicable Date, all of our distributors were Independent Third Parties.

We require our distributors to have an extensive distribution network, sufficient warehousing facilities, stable financial condition, good creditworthiness, strong delivery capabilities and compatibility with our business strategies. The use of distributors to distribute our products to retailers allows us to utilise their distribution capability, reduce our logistics and warehousing costs and improve our working capital position.

We may have more than one distributor in some designated distribution areas. The number of distributors in each designated distribution area is primarily determined by consumer demand, affordability of consumers, distribution network coverage, warehousing facilities and delivery capabilities. Each distributor is responsible for building up its own sales network and contacting its own customers, which are retailers, who then sell our products to consumers.

We generally enter into standard distribution agreement with each of our distributors in China. Such distribution agreement contains substantially the same terms for each of our distributors.

The standard distribution agreement usually has a term of 12 months and is renewable by both parties on an annual basis. Under the terms of our distribution agreements, each of our distributors is granted distribution rights over designated geographical areas and are required to adhere to our pricing policy. We do not specify the minimum purchase amount that our distributors are expected to purchase during the year. Our distributors specify the purchase amount when they place orders with us. We are not required to provide any rebate or commissions to our distributors.

We do not renew the distribution agreements with our distributors if they do not meet our selection criteria. The standard distribution agreement can be renewed on the same terms by our distributors upon 30 days prior written notice. We generally do not accept returns of any residual products from the terminated distributors arising out of the termination of distribution agreements. However, we may assist the terminated distributors to sell residual products to other distributors. During the Track Record Period, we have terminated our relationships with 35 distributors as these distributors focused on more short-term monetary objectives and we considered them to be incompatible with our business strategy of expanding on our products into second and third-tier cities in China.

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The following table sets out the movement in the number of our distributors during the periods indicated:

	Year ended 30 June			Ten months ended 30 April
	2007	2008	2009	2010
Addition during the year/period	16	19	31	27
Termination during the year/period	9	11	4	11
Total number of distributors	24	32	59	75

We also maintain good relationships with our distributors. During the Track Record Period, we have not had any dispute nor were we a party to any legal or arbitration proceedings with any of our distributors. From time to time, we provide training to representatives of our distributors in order for them to familiarise themselves with our products and corporate culture. We have been dealing with the majority of our key distributors for over three years.

During the Track Record Period, none of our Directors or their respective associates, and none of our existing Shareholders who (to the knowledge of our Directors) own more than five per cent of our issued share capital, had any interest in any of our five largest distributors and we do not have any outstanding material disputes with our existing distributors.

To the best of our knowledge and belief, most of our distributors are engaged in the business of distributing health and beauty products in the PRC. They are responsible for selling and distributing our facial mask products in their designated distribution areas. For the three years ended 30 June 2007, 2008 and 2009 and the ten months ended 30 April 2009 and 2010, sales to our top five distributors represented approximately 48.5%, 56.6%, 54.3%, 53.0% and 52.4%, respectively of our revenue. Sales to our largest distributor represented approximately 15.8%, 22.1%, 24.9%, 25.5% and 20.3%, respectively of our revenue for the same periods.

Retailers

We also sell our products directly to our retailers, which are mainly hypermarkets and supermarkets. Our retailers have strong logistics and warehousing capabilities and require us to enter into merchandise contracts with them (and not distributors) and such merchandise contracts are negotiated and signed with either the headquarter or the regional headquarter of our retailers in China. Our sales representatives are responsible for approaching and obtaining sales orders directly from our retailers and we arrange for distribution of our products from our production facility to them. During the Track Record Period and as of the Latest Practicable Date, all of our retailers were Independent Third Parties.

We generally require our retailers to have a well-established nationwide retail network, an inventory management system, stable financial condition and compatibility with our business strategies. We generally enter into merchandise contracts with our retailers for a term of 12 months which may be renewed on an annual basis. We generally negotiate with our retailers the purchase requirement before

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renewing the merchandise contracts with them at the beginning of each calendar year and our retailers specify the purchase amount when they place orders. It is not our policy to provide rebates to our retailers. However, due to the economic situation in late 2008, we provided at our discretion an one-off trade discount of approximately HK\$0.3 million for the 12 months ended 31 December 2009 to one of our retailers in order to reinforce our business relationship.

We generally do not renew the merchandise contracts with our retailers if their business strategies are incompatible with ours. The merchandise contracts can be terminated by either party with prior written notice. We do not accept returns of any residual products from the terminated retailers arising out of the termination of merchandise contracts. However, we may assist the terminated retailers to sell residual products to other retailers.

The following table sets out the movement in the number of our retailers during the periods indicated:

	Year ended 30 June			Ten months ended 30 April
	2007	2008 ⁽¹⁾	2009	2010 ⁽²⁾
Addition during the year/period	0	1	0	0
Termination during the year/period	0	2	0	1
Total number of retailers	3	2	2	1

Notes:

- (1) We terminated our relationship with two retailers for the year ended 30 June 2008 as orders from these retailers were passed to our distributors in the designated distribution areas.
- (2) We terminated our relationship with one retailer for the ten months ended 30 April 2010 as orders from this retailer were passed to one of our distributors in the designated distribution area.

We maintain good relationships with our retailers and have been dealing with our retailers for over two years. During the Track Record Period, we have not had any dispute nor were we a party to any legal or arbitration proceedings with any of our retailers.

During the Track Record Period, none of our Directors or their respective associates, and none of our existing Shareholders who (to the knowledge of our Directors) own more than five per cent of our issued share capital, have any interest in any of our retailers and we do not have any outstanding material disputes with our existing retailers.

For the three years ended 30 June 2007, 2008 and 2009 and the ten months ended 30 April 2009 and 2010, sales to our retailers represented 30.7%, 28.2%, 16.9%, 17.7% and 7.1%, respectively of our revenue. Sales to our largest retailer represented approximately 16.9%, 27.4%, 12.9%, 13.8% and 4.4%, respectively of our revenue for the same periods.

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Sales team

Our sales team comprises sales representatives and salespersons. As of 30 April 2010, we had 147 sales representatives and 881 salespersons, respectively.

Our sales representatives are primarily responsible for approaching potential distributors and retailers, obtaining sales orders from those distributors and retailers, supervising marketing and promotional activities, as well as assisting our distributors to expand the coverage of their distribution network in China. Our sales representatives hold monthly meetings with our distributors and retailers in order to collect information about sales volume and inventory levels of our products. Our sales representatives also conduct inspections from time to time to ensure that our distributors and retailers have sufficient stocks in place and that our products are sold before the expiry dates which are generally three years from their dates of production. We also launch in-store marketing and promotional activities from time to time to ensure that our products are sold quickly and before their expiry dates.

We have a sales representative in Hong Kong who is responsible for gathering information about our sales volume.

We also have a team of salespersons who actively promote and sell our products on the ground and interface with consumers at some of our points of sale throughout China. They are responsible for reporting back sales volume and inventory levels of our products as well as assisting with implementing marketing strategies, such as special product displays and promotional activities, at our points of sale in China.

In order to keep our sales representatives and salespersons abreast of our latest product development, we provide training sessions to upgrade their sales skills and improve their product knowledge from time to time.

We engage some of our sales representatives and all of our salespersons through an Independent Third Party employment agency. For the three years ended 30 June 2007, 2008 and 2009 and the ten months ended 30 April 2009 and 2010, fees paid for the service of the employment agency (excluding wages and commissions paid to these sales representatives and salespersons) were nil, HK\$0.3 million, HK\$0.5 million, HK\$0.4 million and HK\$0.5 million, respectively. We believe that engaging an employment agency allows us to reduce administrative costs, minimise our effort in personnel management and focus our resources on marketing and promotional activities.

Management of our distributors and retailers

We collect and analyse sales volumes of our products sold by our distributors and retailers from our inventory management system which allows us to monitor their performance. Our sales representatives hold monthly meetings with our distributors and retailers during which we gather information from them including sales volumes and levels of inventory. Our sales representatives also conduct inspections from time to time to ensure that our distributors have sufficient stocks in place and that our products are sold by our distributors to retailers. During the Track Record Period, we were not aware of any material accumulation of stock by our distributors and retailers.

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We also require our salespersons to conduct inspection at our points of sale in China and report back to us the sales volumes and inventory levels to help ensure that they have sufficient stocks in place and that our products are sold to consumers in accordance with our pre-set nationwide uniform retail prices and before their expiry dates. We carry out in-store marketing and promotional activities from time to time to avoid the accumulation of stock at our points of sale.

Pricing policy

We sell our products to our distributors and retailers in China at a specified range of discounts from our pre-set nationwide uniform retail prices. Lower rates of discounts are offered to our retailers as we are able to command higher selling prices by reducing intermediate distributors. We adopt a pre-set nationwide uniform retail pricing policy which is applicable to retailers of our products to ensure consistent brand image and pricing and avoid price competition among retailers of our products in China. During the Track Record Period, we have given consent to one of our retailers in China to sell our basic series of facial mask at a price that is RMB0.1 lower than our pre-set uniform retail price. The pre-set nationwide uniform retail price is determined by market demand and supply, production costs and the retail prices of our competitors' products. Our salespersons conduct inspections on our points of sale in China to ensure that our products are sold to consumers in accordance with our pre-set nationwide uniform retail prices.

Credit control

We generally require our distributors to make payment to us before our products are delivered to them. We may also grant credit term of up to one year for certain amount of facial mask products to our distributors at the beginning of the calendar year on request on a case-by-case basis, depending on their estimated future sales, business scale, funding needs to expand their network and payment history. We require such distributors to settle payment for these products purchased on credit at the end of the calendar year. Once the credit amount is exceeded, no further credit is provided for any subsequent placement from these distributors and we require these distributors to make payment to us before products under any subsequent placement of orders are delivered to them. We review the amount of products that may be delivered to our selected distributors on credit annually at the beginning of each calendar year. The Directors consider that this credit arrangement is not uncommon in the skincare industry in PRC. For the three years ended 30 June 2007, 2008 and 2009 and the ten months ended 30 April 2009 and 2010, 20, 26, 58, 48 and 60 of our distributors, respectively, were granted credit for certain amount of facial mask products from us. The amount of credit granted to our distributors represents approximately 7.0%, 16.0%, 18.0%, 21.8% and 21.1%, respectively of our revenue for the same periods.

We generally offer a credit term of 45 to 60 days to our retailers based on the size of their retail outlets, sales performance, credit history and estimated future purchases.

Our finance department carries out a regular reconciliation exercise of all outstanding accounts receivables and produces receivables reconciliation reports regularly. Our management team considers

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whether bad or doubtful debt provisions are necessary. We have not made any provision for bad debts or doubtful debts during the Track Record Period. We also have not experienced any negative cash flows during the Track Record Period. For these reasons, the Directors do not consider there is any material liquidity risk associated with our credit policy.

Sales return policy

We do not allow our distributors to return our products after they are delivered to the distributors' warehouses. Our distributors are generally allowed to exchange any defective products with us within seven days from the date of delivery to their warehouses. We allow our distributors to exchange unused products due to packaging defects within seven days from the date of delivery to their warehouses. We generally allow our retailers to return defective or unused products or products with packaging defects.

During the Track Record Period, we have not announced any product recalls nor have we received any return and/or exchange of unused products due to any quality defects, discovery of harmful chemicals used or product side effects. We have not reduced our gross sales to reflect any potential sales returns over the Track Record Period as we estimated that future returns by customers would not be material. All our sales are recognised without any recourse. For further details regarding our revenue recognition policy, please refer to the section headed "Financial Information — Critical accounting policies and estimates — Revenue recognition" in this prospectus. We also have not experienced any material impairment to our inventories over the Track Record Period nor have we provided for any inventory impairment allowance during the Track Record Period due to sales returns.

MARKETING AND PROMOTION

We adopt a multi-faceted marketing strategy to increase consumer awareness of our brands and products. Our sales and marketing team is responsible for the design and promotion of our brands and products and the formulation of our marketing strategies to be implemented by our salespersons at our points of sale in China.

We believe that our brand is key to the success of our business. In order to enhance and define our brand image worldwide, we entered into a contract with an international brand advertising company, Ogilvy & Mather, in December 2009 to build, manage and promote our brands in accordance with our business strategies. Our sales and marketing team works closely with Ogilvy & Mather to promote our brands through various channels and methods.

We intend to invest additional resources in marketing campaigns and activities to support and expand the positive reputation of the 美即  brand and to increase consumer awareness, not merely of our brand, its product ranges and our market dominance, but also of the role of facial masks in individuals' skincare routines through aggressive marketing and promotional activities. We market our brands and products through various channels and methods including (i) organising frequent in-store marketing and promotional activities; (ii) advertising in magazines, the Internet and public transport; (iii) television commercials; and (iv) roadshows.

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We place great emphasis on our in-store marketing and promotional activities to increase the brand recognition and promote our corporate image and culture. We enter into product display arrangements with retailers of our products in China from time to time to ensure consistent brand recognition and satisfactory marketing results. Our sales representatives also contact retailers of our products in China directly with respect to our in-store marketing and promotional activities, whereas our salespersons are responsible for implementing such marketing strategies at our points of sale.

Below are pictures of how our products are displayed at different retailers of our products.



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Below is a sample advertisement in magazines.



美即面膜护理中心
MG Facial Mask Center



Below is an image of television commercials broadcast at television stations:



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Below is a picture of one of our roadshows of our products.



We obtain feedback on our products directly from consumers at our points of sale in China. We also operate a customer service hotline which allows our customers to express their views about our products and services.

For the three years ended 30 June 2007, 2008 and 2009, and the ten months ended 30 April 2009 and 2010, our sales and promotional expenses were HK\$40.9 million, HK\$94.0 million, HK\$126.7 million, HK\$112.5 million and HK\$206.3 million, respectively which represented 31.2%, 37.2%, 33.8%, 37.8% and 40.5%, respectively of our total revenue.

RESEARCH AND DEVELOPMENT

We have a dedicated research and development team responsible for advancing and diversifying our product ranges and improving the quality of our products. The team focuses on improving and developing our existing product ranges including quality improvement and the introduction of new products. In March 2010, we entered into the Magic-Hanbul JV Agreement under which, among others, we agreed to market, sell and/or distribute cosmetic and skincare products under the "It's Skin" and "ICS" brands in Greater China. Under the Magic-Hanbul JV Agreement, as Hanbul agreed to provide technical support and training to the MG JV Group in relation to research and development, manufacturing, sales and marketing, we can strengthen our competitiveness in respect of our research and development, technical knowhow development, brand management, quality control and general management.

Our product development process is market-oriented. Our product development team visits retailers of our products and carries out market research from time to time in order to gather first-hand

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market information about our products and consumer needs prior to formulating our plans for new product launches. Our product development team also relies on sales reports submitted by our distributors to analyse the market demands and trends. Based on the findings, our product development team formulates our plans for new product launches and communicates such plans to our research and development, production and sales and marketing teams. Our sales and marketing team is responsible for the design of new products. Our production team is responsible for manufacturing such new products based on the product formulae provided by our research and development team. We test and refine the products before we formally launch them into the market. It takes three to six months from the time of discussing new product ideas to the time of mass production of our products.

We started to cooperate with a research institution, Beijing Technology & Business University (北京工商大學) in January 2010. Professors and researchers of this university are leading professionals in the area of fine chemicals. In January 2010, we entered into cooperation agreements with Beijing Technology & Business University (北京工商大學). Under the terms of the agreements, the university agreed to develop theories and produce research reports on the use of Chinese herbs in cosmetic products and provide us with technical support in the development and production of Chinese herbal cosmetic products. The university also agreed to provide product testing services, including analysis on the functions and safety of our products to ensure compliance with our product specifications. While we own all intellectual property rights arising out of the co-operation arrangements and have exclusive rights to the profits generated from them, we bear the costs of the research and development projects.

We plan to continue to invest in our research and development capabilities. In December 2006, Magic Holdings established a wholly-owned subsidiary, Mijeuk in Korea. It was set up with a view to forming strategic alliances with certain universities and research institutes and with a view to conducting in-depth research and development of the 美即 MJE products and enhancing the skincare products with foreign advanced technologies. We also intend to set up an in-house research and development centre in our new production facility in GHIDZ, with facilities for product testing in the production facility and to further recruit experienced specialists for our research and development team. The construction of the research and development centre is expected to be completed by the end of 2012.

For the three years ended 30 June 2007, 2008 and 2009 and the ten months ended 30 April 2009 and 2010, our research and development expenses were HK\$3.1 million, HK\$4.9 million, HK\$5.6 million, HK\$4.8 million and HK\$7.2 million, respectively, which represented 2.4%, 1.9%, 1.5%, 1.6% and 1.4%, respectively of our revenue for the same periods.

PRODUCTION

We manufacture some of our products in our production facility in the Panyu District, Guangzhou, PRC. We also outsource some of our production of peel-off and wash-off facial masks to GZCCL, which is a manufacturer and wholesaler of skincare and cosmetic products. In September 2008, in anticipation of future growth in demand for our products, we entered into a processing agreement with GZCCL (which was supplemented by another agreement in March 2010), under which we agreed to pay a processing fee of RMB360,000 per year for GZCCL to manufacture peel-off and wash-off facial mask products for us on an exclusive basis until 31 December 2011. As of the Latest Practicable Date, we were the only customer of GZCCL. Under such arrangement, we shall provide raw materials and packaging materials to GZCCL for the production of these products and may send our technical staff from time to time to this

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production facility to monitor the production process to ensure that the products meet our quality standards at our own cost. For the three years ended 30 June 2007, 2008 and 2009 and the ten months ended 30 April 2009 and 2010, the percentages of our products that were manufactured by GZCCL by volume were approximately nil, nil, 11.5%, nil% and 40.7%. We believe that this processing arrangement provides us with more flexibility in responding to tight schedules and at the same time enables us to control the quality of our products as well as certain key production process of our products. For the year ended 30 June 2009, utilisation rate of the production for peel-off and wash-off facial masks reached 80.0%. Had we not outsourced some of our production to GZCCL, utilisation rate of the production facility in the Panyu District, Guangzhou, PRC would have been over 100.0%. For the ten months ended 30 April 2010, we outsourced more of the production of our wash-off facial masks to GZCCL, as we considered GZCCL to be more equipped to produce our wash-off facial mask products in large scale. We also engage an Independent Third Party to manufacture skincare products under the brand of Honeyface for us. During the Track Record Period, we did not experience any material interruptions to our production.

The following table sets out the number of production lines, their annual production capacity and utilisation rate for our production facility and the production facility of GZCCL under the processing agreement for the periods indicated:

Production facility in the Panyu District, Guangzhou, PRC

Products	Production lines	Expected production capacity	Actual production volume	Utilisation rate ⁽²⁾	
		(units) ⁽¹⁾	(units)	(%)	
		('000)	('000)	(%)	
Peel-off facial masks (sheets)	year ended 30 June 2007.....	2	34,560	20,160	58.3
	year ended 30 June 2008.....	3	51,840	34,560	66.7
	year ended 30 June 2009.....	3	51,840	41,472	80.0
	ten months ended 30 April 2010	3	43,200	40,517	93.8
Wash-off facial masks (packs/tubs)	year ended 30 June 2007.....	1	2,304	720	31.3
	year ended 30 June 2008.....	1	2,304	1,440	62.5
	year ended 30 June 2009.....	1	2,304	1,843	80.0
	ten months ended 30 April 2010	1	1,920	974	50.7

Notes:

- (1) The expected production capacity is calculated on the basis that production is carried out nine hours per day, 24 days per month and 12 months per year.
- (2) Utilisation rate is equal to actual production volume divided by expected production capacity.

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Production facility of GZCCL under the processing arrangement

Products		Production lines	Expected production capacity	Actual production volume	Utilisation rate ⁽²⁾
			(units) ⁽¹⁾	(units)	(%)
			('000)	('000)	
Peel-off facial masks (sheets)	year ended 30 June 2007.....	—	—	—	—
	year ended 30 June 2008.....	—	—	—	—
	year ended 30 June 2009 ⁽³⁾	2	34,560	4,608	13.3
	ten months ended 30 April 2010.....	2	28,800	27,011	93.8
Wash-off facial masks (packs/tubs)	year ended 30 June 2007.....	—	—	—	—
	year ended 30 June 2008.....	—	—	—	—
	year ended 30 June 2009 ⁽³⁾	2	4,608	1,037	22.5
	ten months ended 30 April 2010.....	2	3,840	1,462	38.1

Notes:

- (1) The expected production capacity is calculated on the basis that production of our peel-off and wash-off facial masks is carried out nine hours per day, 24 days per month and 12 months per year.
- (2) Utilisation rate is equal to actual production volume divided by expected production capacity.
- (3) GZCCL began manufacturing facial mask products for us from May 2009.

Our factory workers normally work one shift or nine hours per day, six days per week.

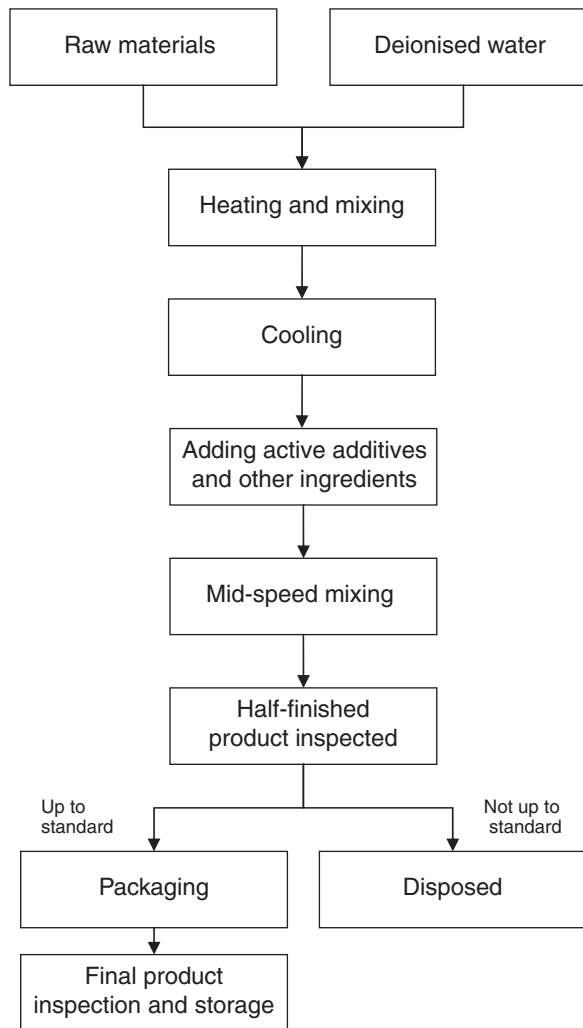
We currently have an annual production capacity of 51.8 million sheets of peel-off facial mask and 2.3 million packs/tubs of wash-off facial mask at our production facility and an annual production capacity of 34.6 million sheets of peel-off facial mask and 4.6 million packs/tubs of wash-off facial mask at the production facility of GZCCL. We plan to expand our production capacity by constructing a new production facility with a gross floor area of approximately 49,764.6 square meters in GHIDZ which will have an expected annual production capacity of 276.5 million sheets of peel-off facial mask and 20.7 million packs/tubs of wash-off facial mask upon completion of construction. The expected cost of constructing the new production facility in GHIDZ is approximately RMB110.0 million and will be primarily funded by the net proceeds from the Global Offering and cash generated from operating activities. The construction is expected to commence in the fourth quarter of 2010 and be completed by the end of 2012. Our new production facility is expected to be equipped with automated high speed production lines. A committee comprising representatives from different divisions including the executive Directors will be set up to monitor the construction progress of our new production facility. Independent non-executive Directors will also be updated on the construction progress during the Board meetings. Site visits and meetings with construction company which will be an Independent Third Party will be held from time to time. We plan to move our production lines from the production facility in the Panyu District, Guangzhou, PRC to the new production facility in GHIDZ. In the meantime, we will continue to outsource the production of our products to GZCCL until completion of the new production facility in GHIDZ by the end of 2012. Unless demand for our products substantially exceeds our existing production capacity and that of GZCCL for the next few years, we do not currently plan to expand our production capacity by other means prior to completion of the new production facility in GHIDZ.

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Production process

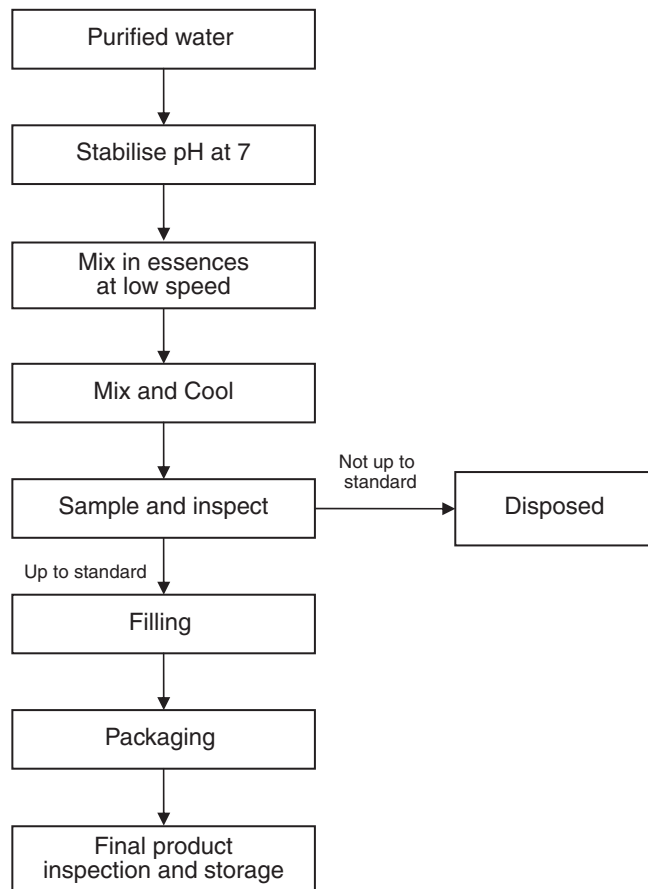
The following diagram shows the typical production process for our products:

Peel-off facial mask production process flowchart



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Wash-off facial mask production process flowchart



The production lead time of our peel-off and wash-off facial mask products from mixing of water and essence ingredients to packaging of finished products is approximately eight days.

The expiry dates of our products is generally three years from their date of production.

QUALITY CONTROL

We place great emphasis on the quality of our products and therefore implement stringent quality control procedures. We perform quality checks at each key stage of our production process to ensure that our products comply with the relevant laws and regulations in China.

Our quality control procedures cover the following:

Water: water is an important ingredient in our products. We perform regular checks on the quality of our purified water to ensure that (i) the electroplating rate is below a certain percentage; (ii) the number of bacteria is below a certain level; and (iii) the pH value of our purified water is between a certain range through deionisation process.

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Essence ingredients: all essence ingredients delivered to our production facility are sampled for testing before they are accepted. We implement a set of quantitative measurement with reference to the odour, appearance, pH value and number of bacteria of the ingredients. After the ingredients are mixed in accordance with our product formulae, we conduct testing again to ensure that the mixed essence ingredients meet our quality standards.

Non-woven cloth: we examine the non-woven cloth for its appearance, specifications and compatibility with our products to ensure consistent high quality.

Packaging materials: we inspect the quality of packaging materials to ensure that the packaging materials are in compliance with our standards and the relevant standards set by the PRC government.

We conduct routine product inspections and sample testings at each of the production lines. Finished products are subject to regular quality audits. The relevant hygiene authority and quality and technology supervision administration also perform inspection from time to time to ensure our products meet the quality standards laid down by the PRC government.

We carry out regular checks on equipment to ensure that it is maintained to a high operational standard. During the Track Record Period, we have not experienced any material or prolonged stoppages of production due to equipment failure, nor have we experienced any accidents during the production process.

It is our policy that all customer complaints are handled promptly upon receipt. We have a customer service hotline and a dedicated customer services team responsible for handling customer complaints and answering questions in relation to our products. During the Track Record Period, we have not received any complaints from our customers about the quality of our products which have caused a material adverse impact on our business.

RAW MATERIALS, PACKAGING MATERIALS AND SUPPLIERS

Our primary raw materials are (i) water; (ii) essence ingredients; and (iii) non-woven cloth.

Water

Our water is supplied by a water supply company controlled by the local government. During the Track Record Period, we have not experienced any disruption to the supply of water to our production facility and the price of water has been stable.

The water supplied to us has to go through a deionisation process in which the ionic contaminants present in the water are exchanged for ions released by the ion-exchange resin. During the ion exchange process, cation resins will exchange hydrogen ions for any cations they encounter and anion resins will exchange hydroxyl ions for any anions present. The ionic impurities remain bound to the resins and the hydrogen and hydroxyl ions combine to form pure water.

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Essence ingredients

The essence ingredients we use are a mixture of chemicals which include hyaluronic acid (玻尿酸), lubrajel oil (蘆芭油), collagen (膠原蛋白) and sodium lactate (乳酸鈉). We only use ingredients which are on the State Food and Drug Administration (中國藥監局) approved list of ingredients for use in skincare/cosmetic products in China.

We source all of our ingredients from at least two suppliers located in Guangdong province, PRC. Our supply contracts are generally framework contracts with a term of one year and do not contain any annual target purchase volumes nor prices. The framework contracts are renewable by both parties with one month prior notice. We specify the purchase volume and price when we place orders. All essence ingredients provided by our suppliers are required to meet our standards and the relevant standards set by the PRC government.

Non-woven cloth

We source all of our non-woven cloth from at least three suppliers located in Guangdong province, PRC. Our supply contracts are generally framework contracts with a term of one year and do not contain any annual target purchase volumes nor prices. The framework contracts are renewable by both parties with one month prior notice. We specify the purchase volume and price when we place orders. All non-woven cloth provided by our suppliers are required to meet our standards and the relevant standards set by the PRC government.

For the three years ended 30 June 2007, 2008 and 2009 and the ten months ended 30 April 2009 and 2010, costs of our raw materials were HK\$14.8 million, HK\$29.7 million, HK\$49.5 million, HK\$36.1 million and HK\$51.2 million, representing 46.6%, 47.7%, 47.2%, 46.9% and 43.5%, respectively of our total cost of sales.

Packaging materials

Our product packaging is important in maintaining our brand image. Our packaging materials are largely paper boxes, transparent shrink films, composite packaging materials and labels which are all sourced from local suppliers in Guangdong province, PRC. Our supply contracts are generally framework contracts with a term of one year and do not contain any annual target purchase volumes nor prices. The framework contracts are renewable by both parties with one month prior notice. We specify the purchase volume and price when we place orders. All packaging materials provided by our suppliers are required to meet our standards and the standards set by the PRC government.

For the three years ended 30 June 2007, 2008 and 2009 and the ten months ended 30 April 2009 and 2010, costs of our packaging materials were HK\$14.2 million, HK\$25.9 million, HK\$45.6 million, HK\$32.0 million and HK\$54.1 million, representing 45.0%, 41.6%, 43.5%, 41.6% and 45.9%, respectively of our total cost of sales.

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Suppliers

We maintain close relationships with our suppliers, the majority of which has a relationship with us for over three years. We maintain a list of qualified suppliers and review the list periodically. Each supplier has to submit laboratory test results and samples for examination and testing. We also conduct site visits to assess the production scale and quality control system of such supplier. All the goods provided by our suppliers are required to meet our quality standards and the standards set by the relevant PRC government authorities.

We select our suppliers principally based on their production scale, reputation and the ability to deliver goods on time. Each of our suppliers is subject to an annual evaluation of product quality, prices and timely delivery.

Our suppliers usually provide a credit term of 60 days to 90 days and we usually settle invoices from them within 60 days of our receipt.

During the Track Record Period, none of our Directors or their respective associates and none of our existing Shareholders who (to the knowledge of our Directors) own more than five per cent of our issued share capital have any interest in any of our five largest suppliers and we do not have any outstanding material disputes with our existing suppliers.

For the three years ended 30 June 2007, 2008 and 2009 and the ten months ended 30 April 2009 and 2010, the aggregate purchases from our five largest suppliers amounted to HK\$15.8 million, HK\$29.4 million, HK\$48.0 million, HK\$35.6 million and HK\$66.1 million, respectively, representing 46.6%, 47.4%, 49.9%, 48.2% and 53.2%, respectively of our total purchases of raw materials and packaging materials and we purchased 15.6%, 14.4%, 15.2%, 14.5% and 15.0%, respectively of our total purchases from our largest supplier.

INVENTORY AND WAREHOUSING

Our inventory comprises raw materials, packaging materials, semi-finished products and finished products. Since the sales of our products are not subject to seasonal influences, our inventory levels have been stable during the Track Record Period.

We monitor our inventory levels regularly. In order to minimise the risk of building up inventory, all our products are sold on a first-in-first-out basis. We maintain an inventory management system that contains details of our products. We also perform stock counts regularly to ensure that our products are sold before their expiry dates. In addition, our salespersons conduct on-site inspection of our products at our points of sale in China regularly to ensure all of our products are sold to consumers before their expiry date. During the Track Record Period, we have not experienced any shortage of inventory.

Our distributors are required to provide us with sales reports and market information regularly or upon request by us. We review and analyse the information contained in these reports in order for us to assess the market demand for our products. Our salespersons conduct inspection at points of sales in China and report back to us sales volume and inventory levels of our products. We can then assess the

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market demand of our products and adjust our marketing strategies accordingly. Our inventory level is adjusted based on the inventory levels of our distributors and retailers, our sales and marketing strategies, as well as the production plans of our production facility. We store our inventory in our production facility.

LOGISTICS

We outsource all of our product transportation in China to logistics companies. These outsourcing arrangements allow us to reduce our capital investment and reduce the risk of liability for transportation accidents, delivery delays or loss.

We deliver our products by trucks from our production facility to the warehouses of our distributors and retailers in China. We bear the entire cost of delivery. During the Track Record Period and as of the Latest Practicable Date, all of our logistics companies were Independent Third Parties.

We select logistics companies based on a set of selection criteria, including their network coverage and track record. We enter into annual contract with logistics companies and assess and review their performance regularly. Under the terms of the contracts, we are entitled to terminate the contracts with logistics companies if they fail to meet our standards and requirements.

During the Track Record Period, we have not experienced any material disruption to the delivery of our products nor have we suffered any loss or paid any compensation as a result of delays in delivery or poor handling by logistics companies.

COMPETITION

The skincare industry in China is highly competitive and we expect it to be more competitive. Some of our competitors, in particular the international brands, may have been in business longer than we have and may have substantially greater financial, product development and other resources than we have. Although our Company has been in operation for fewer years than a number of its competitors, especially in comparison to many well known international brands, we have secured a dominant share of what is an otherwise fragmented facial mask industry in China.

With increasing attention being given by consumers to skincare, there has been an inevitable influx of brands into the skincare industry. We believe, however, that we have a competitive advantage over our competitors in the facial mask industry in China through our leading market position, well-recognised brand, established sales channels, strong product development capability and expansion of production capacity. Please refer the section headed “Business — Competitive Strengths” in this prospectus for further details.

EMPLOYEES

As of 30 June 2007, 2008 and 2009 and 30 April 2010, we had a total of 770, 976, 1,161 and 1,258 staff respectively, including both our employees and contract staff hired through an employment agency which is an Independent Third Party. Of these totals, nil, 700, 927 and 1,012 were hired through such employment agency respectively.

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The following table sets out a breakdown of our employees and contract staff by function as of 30 April 2010:

Division	Number of our employees and contract staff
Management	35
Sales and marketing ⁽¹⁾	1,028
Manufacturing	123
Research and development/quality control	36
Administration/finance	36
Total	<u>1,258</u>

Note:

(1) *Of this total, we had 881 salespersons and 131 sales representatives hired through an Independent Third Party employment agency.*

We hire a substantial number of contract staff through an Independent Third Party employment agency to assist with our sales and marketing operations. We reward our sales representatives and salespersons with commissions based on various performance criteria such as the sales performance over the year.

For the three years ended 30 June 2007, 2008 and 2009 and the ten months ended 30 April 2009 and 2010, our total staff costs were HK\$5.3 million, HK\$10.2 million, HK\$14.7 million, HK\$12.0 million and HK\$23.9 million, respectively. For the three years ended 30 June 2007, 2008 and 2009 and the ten months ended 30 April 2009 and 2010, fees paid for the service of the employment agency (excluding wages and commissions paid to sales representatives and salespersons) were nil, HK\$0.3 million, HK\$0.5 million, HK\$0.4 million and HK\$0.5 million, respectively.

We utilise a staff evaluation programme whereby each member of staff receives feedback on their performance. We have an incentive scheme for all our employees.

We provide regular training to our staff in order to improve their customer service skills, sales skills, technical skills and product knowledge. Such training is delivered by individuals from within the Group and also by external trainers at either our production facility or our offices.

We make contributions to social insurance, including insurance for sickness and workplace injuries, and unemployment and retirement funds for all our employees in accordance with the relevant PRC laws and regulations. We have not paid certain past housing provident fund contributions for and on behalf of our employees due to inconsistent implementation or interpretation by local authorities in the PRC and different levels of acceptance of the social security system by employees. For the three years ended 30 June 2007, 2008, and 2009 and the ten months ended 30 April 2010, the amount of unpaid

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housing provident fund contribution for our employees is estimated to be approximately HK\$42,000, HK\$100,000, HK\$158,000 and HK\$154,000. No provision for these amounts was made during the Track Record Period. As advised by our PRC legal adviser, we may be ordered to pay such housing provident fund contributions within a stipulated deadline by the relevant PRC authorities.

We have also been advised by our PRC legal adviser that the Independent Third Party employment agency we use holds the relevant permits and that the agreement entered into with it by us is effective and legal. Pursuant to this agreement, the employment agency is responsible for the social insurance of the contract staff we hired through the employment agency, payment for which will be made out of the agency fee paid to it by the Company. According to the PRC Labour Contract Law (勞動合同法), which came into effect on 1 January 2008, we may be liable if the employment agency fails to comply with all applicable labour laws relating to the contract staff supplied by them. However, the Company will have the right to sue the Independent Third Party employment agency for any of our losses caused by its failure to comply with the applicable labour laws.

We have been advised by our PRC legal adviser that the Company is in compliance with the PRC Labour Contract Law (勞動合同法) in all material respects during the Track Record Period and up to the Latest Practicable Date.

According to certificates issued by the relevant social insurance administration department, the Company has made the relevant social insurance payments required under PRC law.

We believe that our work environments and the support and advancement opportunities our staff receive have contributed to our ability to maintain good working relationships with all our staff. During the Track Record Period, we have not had any strikes or labour disputes having a material effect on our business.

INTELLECTUAL PROPERTY

Our intellectual property is crucial to our Company as we rely on consumers' recognition of our brands and products.

As of 30 April 2010, we had 31 registered trademarks and 74 applications for trademark registration. Please refer to the paragraph headed "Intellectual property rights of our Group" in Appendix VI to this prospectus for details of our trademark portfolio.

On 15 March 2010, a total of 10 registered trademarks, 22 registered outlook designs and seven applications for registration of outlook designs were assigned to us pursuant to various intellectual property rights assignment agreements entered into between Mr. She, our executive Director, and Magic Holdings. On the same date, two trademarks assignment agreements were entered into between Mr. Zhao Lizhi, a minority shareholder of Donglisheng, and Donglisheng pursuant to which one registered trademark and one application for registration of trademark were assigned to us. Further particulars of such assignments are set out in the paragraphs headed "Licence of Trademarks and Outlook Designs under the IP Rights Assignment Agreements" and "Licence of Trademarks under the Donglisheng Trademarks Assignment Agreements" in the section headed "Connected Transactions" in this prospectus.

BUSINESS

Magic Holdings and Hanbul have entered into a name use agreement in relation to granting the right to use the trade names and the trademarks containing the word “Magic” and “Hanbul” respectively in the company names in each member of the MG JV Group. Hanbul and its wholly-owned subsidiary has each entered into a trademarks licence agreement on 3 September 2010 with MG JV BVI in relation to the licensing of the right to use certain trademarks to MG JV BVI, in certain skincare and cosmetics products. Please refer to the paragraphs headed “Name Use Agreement”, “Hanbul Trademarks Licence Agreement” and “It’s Skin Trademark Licence Agreement” in the section headed “Connected Transactions” in this prospectus for further details.

COUNTERFEIT PRODUCTS

We are aware that certain counterfeit products bearing our 美即^{MG} brand exist in the PRC market. We investigate counterfeit products in the market through our own department and an Independent Third Party agency to oversee counterfeit products and infringement of our intellectual property and information provided by our distributors and retailers. Where appropriate, we inform and cooperate with relevant PRC government authorities, such as the local branch of the State Administration for Industry and Commerce (國家工商管理總局) and the relevant quality and technology supervision administration, of the existence of such counterfeit goods and request appropriate actions to be taken to protect us. During the Track Record Period, we discovered incidents of possible infringements and made report to relevant PRC government authorities on 8 of such incidents. Appropriate actions were taken by the relevant PRC government authorities, including confiscation of counterfeit productions and imposition of fines. We continue to take appropriate actions to defend our intellectual property rights and our products against possible infringements. We confirm that counterfeit products have not had a material adverse effect on our Group during the Track Record Period.

REAL ESTATE

Leased properties

As of 30 April 2010, we leased:

- a building with a gross floor area of approximately 509.6 square meters at Level 2, No. 62-78 Shendun Village Section of Guangpan Highway, Zhongcun Town, Panyu District, Guangzhou, PRC;
- an office with a gross floor area of 446 square meters at Room 1501-1504, Tianyi Plaza, 644 Tongfu East Road, Haizhu District, Guangzhou, PRC; and
- an office with a gross floor area of 122 square meters at Room 2503, 27-1 Baiyun Road, Yuexiu District, Guangzhou, PRC.

BUSINESS

We have not been able to ascertain the validity of the lease on the building in the Panyu District, Guangzhou, PRC. This building has been leased by us for production purposes since 2003. We have been advised by our PRC legal adviser that the landlord of such leased property in the Panyu District, Guangzhou, PRC has not yet obtained the building ownership certificates nor has it registered the relevant lease with the government authorities. We have however been advised by our PRC legal adviser that failure of the landlord to register and file such lease will not subject the Company as tenant to any penalties or invalidate the lease agreement. During the Track Record Period and as of the Latest Practicable Date, we have not been subject to any evictions or fines. As advised by our PRC legal adviser, we have the right of recourse on the rental deposits attributable to such leased property. For the three years ended 30 June 2007, 2008 and 2009 and the ten months ended 30 April 2009 and 2010, the percentages of our products that were manufactured at our production facility by volume were approximately 100%, 100%, 88.5%, 100% and 59.3%, respectively. We have not experienced any business disruption due to defective title of the leased property since we commenced production at such leased property in 2003.

Although we are of the view that the leased property is crucial to our operations, in the event that we are forced to evict from this property, we believe that we should be able to secure alternative premises within the same district, or outsource the production of our facial mask products to GZCCL (which has signed an agreement with us at nil consideration in May 2010 confirming that (i) if required, GZCCL shall process our facial masks currently manufactured in the production facility in the Panyu District, Guangzhou, PRC, and (ii) it can readily increase its production lines and will have the production capacity to carry out such processing) or other third parties, before construction of our new production facility is completed. We have been advised by our PRC legal adviser that the agreement with GZCCL is binding on us and GZCCL. We have also obtained quotations from several property owners in the Panyu District, Guangzhou, PRC and are in the course of negotiation with a potential landlord for a potential lease within the same district at substantially the same rate of rental per square meter. The cost of refurbishing and renovating the alternative premises is expected to be approximately RMB1.3 million and the relocation of production from the leased property to the alternative premises is expected to be completed in less than five months.

We plan to move our production lines from the production facility in the Panyu District, Guangzhou, PRC to the new production facility in GHIDZ and cease outsourcing the production of our facial mask products to GZCCL when the construction of our new production facility in GHIDZ is completed by the end of 2012. We will disclose the construction progress of the new production facility in our annual reports.

Land

On 18 January 2010, we signed a land grant contract with the local government in Guangzhou, PRC to acquire the appropriate land use rights for a parcel of land with a site area of approximately 19,906.0 square meters at GHIDZ, Lot No. SDK-B-9, north of Kaiyuan Road, south west of Yonghe Tunnel Exit, Luogang District, Guangzhou, PRC where our new production facility will be located.

Please refer to the valuation report prepared by DTZ Debenham Tie Leung Limited, an independent property valuer, as set out in Appendix IV to this prospectus for further details.

BUSINESS

ENVIRONMENTAL PROTECTION

We seek to conduct our business without adversely affecting the environment. For this reason we have in place an environmental management policy covering all elements of the production process and disposal of waste materials. Waste water is the primary waste from our production process. We attempt to reduce, reuse or recycle such waste water which allows us to reduce our water consumption and minimise the environmental impact of our operation.

Our production is supervised by the relevant PRC environmental protection authority. According to the certificate issued by the Second Office, the Environment Protection Bureau of the Panyu District (番禺環保局), Guangzhou, PRC on 24 February 2010, the production processes of MG Cosmetics comply with the relevant environment protection laws, the disposal of waste products of MG Cosmetics is in line with the relevant government standards and no relevant administrative punishment has been imposed on MG Cosmetics. Our PRC legal adviser also inform us that the Group's production processes comply with applicable PRC laws and regulations.

The Directors are of the view that the annual cost of compliance with applicable PRC environmental laws, regulations and policies was not material during the Track Record Period. We believe that the expected cost of compliance will not be material going forward.

During the Track Record Period, we have not been subject to fines or legal actions resulting from non-compliance with any relevant environmental regulations in China and there was no threatened or pending action by any PRC environmental regulatory authority.

SAFETY

Maintaining a safe environment for our employees is important to us. We have a safety management team which carries out regular safety checks on our production equipment to ensure that such equipment is thoroughly tested. We generally require our operators of equipment to attend training sessions on the required safety standards. We also employ an internal health and safety manual for all our employees.

During the Track Record Period, we have not experienced any material or prolonged stoppages of production due to equipment failure, nor have we experienced any major accidents during the production process. We are not aware of any toxic substances resulting from the production process which have caused any personal injuries.

INSURANCE

We make contributions to social insurance for our employees including insurance for retirement, unemployment, sickness and injury, as required by the PRC social regulations. We believe that our insurance coverage is adequate for our operations. Since it is not required by PRC law, and consistent with usual industry practice in the PRC, we do not carry any business interruption or product liability insurance or third party liability insurance. Please refer to the section headed "Risk Factors — Risks Relating to Our Business — Our insurance coverage may not completely cover the risks related to our business and operations" in this prospectus for further details.

BUSINESS

During the Track Record Period, we have not made, neither have we been the subject of, any insurance claims which are of a material nature to the Group.

LEGAL PROCEEDINGS

As of the Latest Practicable Date, we were not a party to any legal, administrative or arbitration proceedings, and we were not aware of any such proceedings threatened against us that had a material adverse impact upon our financial condition or results of operations.

RELATIONSHIP WITH HUA HAN

BACKGROUND INFORMATION OF THE HUA HAN GROUP

Hua Han was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 28 August 2000, the shares of which have been listed on the Main Board of the Stock Exchange since 10 December 2002. Immediately upon completion of the Global Offering and the Capitalisation Issue but without taking into account of any Shares which may be taken up under the Global Offering and any Shares which may be allotted and issued upon the exercise of the Over-allotment Option, Hua Han, through its wholly-owned subsidiary, Queenherb, will be interested in approximately 26.0% of the then issued share capital of the Company. The Global Offering constitutes a deemed disposal of Hua Han's equity interest in its subsidiary under Rule 14.29 of the Listing Rules, which constitutes a major transaction for Hua Han under Chapter 14 of the Listing Rules and will be subject to reporting, announcement and shareholders' approval requirements under the Listing Rules. Upon completion of the Global Offering, the Company will cease to be a subsidiary of Hua Han. The approval from Hua Han's shareholders has been obtained at its extraordinary general meeting held on 6 September 2010.

The Hua Han Group is principally engaged in the research and development, manufacture and sale of gynecological medicine, feminine medicinal healthcare products and bio-pharmaceutical products in the PRC.

The Hua Han Group focuses on its fundamental strategy of becoming a leading corporation in gynaecological medicine and feminine medicinal healthcare products and it also maintains a solid position in the bio-pharmaceutical industry. At the same time its skincare and cosmetic products marketed under the 美即 MEG brandname continued to grow. According to the CTR Reports, our 美即 MEG brand had the largest market share of 15.1% in the facial mask industry in China in 2009 in terms of retail sales.

The Group had been operated as an integral part of the Hua Han Group but it has been operating independently from the Hua Han Group.

The 美即 MEG brand of products comprising facial masks and other skincare products and the other business segments of the Hua Han Group have been organised into separate operating units. Accordingly, the Group does not have any business relationship with the Hua Han Group.

INDEPENDENCE FROM THE HUA HAN GROUP

As described in the section headed "History, Reorganisation and Corporate Structure" in this prospectus, it is expected that upon the Listing of the Shares, members of the Group will cease to be subsidiaries of Hua Han which demonstrates the independence of the Group from the Hua Han Group and the delineation of the business operations of the two groups. In addition, the Directors consider that the Group is capable of carrying on its business independently of the Hua Han Group after Listing based on the following particulars:

Management independence

As at the Latest Practicable Date, the Board had eight members, comprising five executive Director and three independent non-executive Directors while the board of directors of Hua Han had three

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executive directors, two non-executive directors and three independent non-executive directors. In addition, four employees of the Group namely, Mr. Tang, Mr. She, Mr. Luo and Mr. Feng Hong, were referred to and regarded as senior management of Hua Han's subsidiary for the year ended 30 June 2009.

Mr. Chen Lei and Mr. Zhang Kun Mou are members of the senior management team of the Hua Han Group. During the Track Record Period, Mr. Chen Lei was a supervisor of Guangdong Qunhe for the period from 18 May 2005 to 12 June 2009. Other than that, none of Mr. Chen Lei or Mr. Zhang Kun Mou held any other position in the Group.

The following table sets out the current positions of Mr. Zhang Kun Mou and Mr. Chen Lei in the Hua Han Group and our Group:

<u>Name of Director</u>	<u>Position held with our Group</u>	<u>Position held with the Hua Han Group</u>
Mr. Zhang Kun Mou	Executive Director	General manager of Guizhou Factorr Bio-Technology Co., Ltd (貴州泛特爾生物技術有限公司) (“ Guizhou Factorr ”), a company established in the PRC indirectly owned as to 75% by Hua Han
Mr. Chen Lei	Executive Director	Assistant to the General Manager of the Hua Han Group

Mr. Tang, Mr. She, Mr. Luo and Mr. Feng Hong have been acting as directors and/or senior management members of various subsidiaries of the Company since 2005. The above personnel (or some of them) were regarded as senior management personnel of the Hua Han Group in Hua Han's annual reports for the three years ended 30 June 2009. However, none of them had played any role in the Hua Han Group during the Track Record Period other than the business and operation of the Group.

Save as disclosed above, except Mr. Chen Lei and Mr. Zhang Kun Mou, no other directors or senior management of the Group had any role in the Hua Han Group. It is expected that all the executive Directors, except Mr. Chen Lei and Mr. Zhang Kun Mou, will not have any official capacity or involvement in, or remunerated by the Hua Han Group after Listing. Save as disclosed above, it is also expected that there will not be any overlapping senior management between the Hua Han Group and our Group after the Listing. The Group is capable of maintaining management independence.

Having over 20 years of experience in engineering, it is expected that Mr. Zhang Kun Mou will be responsible to assist the Group in production planning, production facilities management and provide strategic advice to the Group in expansion of the Group's production capacity; whereas Mr. Chen Lei, who has been assisting the Hua Han Group in financial management with solid financial background, is expected to be responsible for providing strategic advice to the Board in financial planning and management and general supervision of the Group's finance matters. It is currently expected that they will spend substantial effort and time in directing and supervising the Group's affairs. Therefore, even if they will not be involved in the day-to-day operation and running of business of the Group, they should act as executive Directors of the Company instead of non-executive Directors. The daily operations and

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management of the Group will continue to be handled by the other three executive Directors of the Company and a group of experienced senior management with extensive experience in the skincare products business and other employees of the Group. Hence, Mr. Chen Lei and Mr. Zhang Kun Mou are not expected to be involved in making decisions as to the day-to-day operations of the Group, it is expected that there will not be any conflict of interests arising as a result of the overlapping of the roles of the two directors.

Moreover, if potential conflict of interest between the overlapping directors' roles should arise, the interested directors with potential conflict of interest shall abstain from voting at the relevant Board meetings of the Company in respect of such transactions or matters with potential conflict of interest, and they shall not be counted in the quorum of the relevant Board meetings. Where actual conflicts of interest arise, the interested Directors will abstain from attending Board meeting, unless requested to attend by a majority of the independent non-executive Directors. For the Company, Board decisions in respect of such matters or transactions with potential conflict of interest will be decided by the independent non-executive Directors (among whom Prof. Dong Yin Mao is experienced in the cosmetics and skincare products industry) as well as the executive Directors with no involvement in the Hua Han Group. In addition, the Company has an independent senior management team to carry out the business decisions of the Group independently.

Based on the above reasons, the Directors are of the view that the Directors and senior management of the Group is able to function independently of the Hua Han Group and potential conflict of interest can be avoided and where it arises, resolved.

Products and business independence

The core businesses of the Hua Han Group and the Group, by their very nature, are different businesses which are independently operated in distinct markets. The Directors expect that, immediately following completion of the Global Offering, the Hua Han Group will engage principally in the research and development, manufacture and sale of gynaecological medicine, medicinal healthcare products (excluding Skincare Products and other cosmetics and skincare products) and bio-pharmaceutical products, whereas the Group will focus on the facial mask products and skincare products business.

The medicinal healthcare products to be produced by the Hua Han Group (which excludes facial mask products and other cosmetics and skincare products) are mainly for improving the health and physical well-being of the target users of such products, and the products of the Group focus on enhancing the appearance or skin quality of target users are of obvious different nature, there is a clear delineation between the businesses retained by the Hua Han Group and the business of the Group and there will not be any overlapping of business.

Moreover, the production base of the Hua Han Group and that of the Group are different: the main manufacturing hub of the Hua Han Group is in Guizhou and that of the Group is located in Guangzhou.

Further, products of the Hua Han Group are mainly sold to hospitals and through over-the-counter drug stores in the PRC; while the facial mask products and skincare products of the Group are retails goods available at chain stores, various retail personal care shops, hypermarkets and supermarkets in

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the PRC such as Watsons, Carrefour, Wal-Mart and RT-Mart. As the respective principal raw materials, production materials, production base, products and customers of the Hua Han Group and the Group are different, the Directors are of the view that there will not be any actual or potential competition between the respective businesses of the Hua Han Group and the Group.

To ensure the independence of the operation and businesses of the Group from the Hua Han Group: (a) the Group also has its own research and development, production, sales and marketing and finance teams which have been operated and is expected to continue to operate separately and independently of the Hua Han Group and (b) there is no ongoing connected transactions between the Hua Han Group and the Group and it is not currently expected that there will be any future connected transactions between the two groups after the Listing.

Financial independence

The Group has an independent financial system and finance team which is responsible for its own treasury functions despite its members are subsidiaries of Hua Han during the Track Record Period.

Balances with the Hua Han Group were not arisen from trading activities. During the Track Record Period, non-trade receivables from the Hua Han Group to the Group amounted to approximately HK\$33.1 million, HK\$49.5 million, HK\$49.2 million and HK\$126.6 million as at 30 June 2007, 30 June 2008, 30 June 2009 and 30 April 2010, respectively; while non-trade payables to the Hua Han Group from the Group amounted to approximately HK\$54.9 million, HK\$32.9 million, HK\$30.2 million and HK\$20.2 million as at 30 June 2007, 30 June 2008, 30 June 2009 and 30 April 2010, respectively.

The above non-trade balances between the Group and the Hua Han Group will be settled in full prior to the Listing.

On the basis above, the Directors are of the view that the financial system of the Group is independent from the Hua Han Group and the Group will not have any outstanding balances with, and guarantees from or to, the Hua Han Group upon the Listing.

Administrative independence

The Group has its own team of staff to carry out its own administrative functions which are independent of that of the Hua Han Group and without requiring the support of the Hua Han Group. The Group has its own capabilities and personnel to perform all essential administrative functions, including financial and accounting management, invoicing and billing, research and development, human resources and information technology. Each of Hua Han and the Company will be managed and operated by its own board of directors and senior management separately and independently and in the interests of its shareholders.

The Directors are of the view that there is no undue reliance by the Group on the Hua Han Group in any aspect of its operations based on the reasons stated above.

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NON-COMPETE UNDERTAKINGS

Each of the Management Shareholders (namely Mr. Tang, Mr. She, Mr. Luo and Mr. Ho), the Hua Han Group and the Directors currently does not have any interest in a business which competes or is likely to compete, either directly or indirectly, with the Group's business.

However, in order to further delineate the respective businesses of the Hua Han Group and that of the Group and to protect the Group from any potential competition from the Core Shareholders, each of the Core Shareholders has entered into a deed of non-competition in favour of the Company on 6 September (collectively, the “**Non-Competition Undertakings**”) pursuant to which each Core Shareholder has, among other matters, irrevocably undertaken, severally, with the Company (for itself and for the benefits of its subsidiaries, where appropriate) that at any time during the Relevant Period (as defined below), each Core Shareholder shall, and shall procure that its/his associates (which shall exclude the Group):

- (a) save for the Excluded Business (as defined below), not, directly or indirectly, be interested or involved or engaged in or acquire or hold any right or interest in any business or is about to be engaged in any business which competes or is likely to compete directly or indirectly with the business engaged in by the Group at the time of Listing, being the research and development, manufacture and sales and marketing of facial mask and eye mask products in the PRC, Hong Kong and Macau engaged by the Group at the time of Listing (the “**Restricted Activity**”);
- (b) not solicit any existing or then existing employee of the Group for employment by it/him or its/his associates (excluding the Group);
- (c) not solicit any current or then current customers and/or suppliers and/or former customers and/or supplier of the Group for the preceding 6 months at the relevant time away from the Group;
- (d) not, without the consent from the Company, make use of any information pertaining to the business of the Group which may have come to its/his knowledge in its/his capacity as a Substantial Shareholder and/or an executive Director (as the case may be) for the purpose of engaging, investing or participating in any Restricted Activity;
- (e) in respect of any order or any part of it undertaken or proposed to be undertaken by it/him or its/his associates for the Restricted Activity, unconditionally, use reasonable endeavours to procure that such customer(s) to appoint or contract directly with any member of the Group for the Restricted Activity under the relevant order;
- (f) if there is any project or new business opportunity that relates to the Restricted Activity, refer such project or new business opportunity to the Group for consideration and provide such information as may be required by the Company in order to make an informed assessment of such opportunity;
- (g) not invest or participate in any Restricted Activity; and

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- (h) procure its/his associates (excluding the Group) not to invest or participate in any project or business opportunity of the Restricted Activity, unless such being an Excluded Business.

The Core Shareholders and their respective associates (excluding the Group) are entitled to invest, participate and be engaged in any Restricted Activity or any project or business opportunity, regardless of value, which (i) has been offered or made available to the Group, provided always that information about the principal terms thereof has been disclosed to the Company and the Directors, and the Company shall have, after review and approval by the independent non-executive Directors (without the attendance by the relevant Core Shareholder who is also a Director or any Director with beneficial interest in such project or business opportunities, in which resolutions have been duly passed by the majority of the independent non-executive Directors), confirmed its rejection to be involved or engaged, or to invest or participate, in the relevant Restricted Activity and provided also that the principal terms on which the relevant Core Shareholder or its/his associate invests, participates or engages in the Restricted Activity are substantially the same as or not more favourable than those disclosed to the Company (subject to the above, if the relevant Core Shareholder or its/his associate decides to be involved, engaged, or participate in the relevant Restricted Activity, whether directly or indirectly, the terms of such involvement, engagement or participation must be disclosed to the Company and the Directors as soon as practicable); or (ii) are the direct or indirect investments of the Core Shareholders and/or its/his associates (excluding the Group and any associated companies of the Company) in any member of the Group or such associated companies or in any other companies which the relevant Core Shareholder does not hold more than 5% interest and does not participate in the management of such company; or (iii) are engaged by any of the Core Shareholders or its/his associates for the supply and/or provision of any products and/or services to any member of the Group, but not for other purposes ((i), (ii) and (iii) collectively the “**Excluded Business**”).

The Non-Competition Undertakings are conditional on (i) the Listing Committee granting listing of, and permission to deal in, all the Shares in issue and to be issued under the Global Offering and the Shares which may be issued upon the exercise of the Over-allotment Option and options that may be granted under the Share Option Scheme; and (ii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant as a result of the waiver of any condition(s) by the Underwriters) and that the Underwriting Agreement not being terminated in accordance with their terms or otherwise. The Non-Competition Undertakings provided by Hua Han does not require approval from Hua Han’s shareholders.

For the above purpose, the “Relevant Period” means the period commencing from the Listing Date and shall expire on the earliest of the dates below:

- (i) as for Hua Han, the date on which Hua Han and its associates, individually or taken as a whole, ceases to hold 20% or more of our then issued Shares directly or indirectly and do not have power to control the Board; or
- (ii) as for each of Mr. Tang, Mr. She or Mr. Luo, the date on which he ceases to be an executive Director and he and his associates, individually or taken as a whole, do not hold (directly or indirectly) 10% or more of our then issued Shares; or
- (iii) the date on which our Shares cease to be listed on the Stock Exchange or (if applicable) other stock exchange.

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Under the Non-Competition Undertakings, each of the Core Shareholders has also undertaken to the Group to allow the Directors, their respective representative and the auditors of the Group to have sufficient access to the records of the Core Shareholders and/or their respective associates to ensure their compliance of the terms and conditions of the Non-Competition Undertakings and to provide to the Group and the Directors from time to time all information necessary for annual review by the independent non-executive Directors with regard to compliance of the terms of the Non-Competition Undertakings. Each of the Core Shareholders has also undertaken to make annual declaration on compliance with the terms of the Non-Competition Undertakings in the annual reports of the Company. Furthermore, the review results (with basis and criteria) on whether to pursue or decline a new business opportunity and compliance with the Non-Competition Undertakings will be disclosed in the Company's annual report.

CORPORATE GOVERNANCE MEASURES TO AVOID CONFLICT OF INTERESTS

The Directors recognise the importance of incorporating elements of good corporate governance in management conducive to the protection of the interests of the Shareholders. In particular, the following corporate governance measures in relation to managing potential conflict of interests between the Group and the Core Shareholders, the compliance and enforcement of the Non-Competition Undertakings are taken:

- (a) the independent non-executive Directors will be responsible for deciding and given authority to decide, without attendance by any Directors with beneficial interests in the new business opportunity, whether or not to take up a new business opportunity which relates to the facial mask and eye mask products business and is referred to the Group by the Core Shareholders or any other matter arising under the terms of the Non-Competition Undertakings. For this purpose, the independent non-executive Directors may, from time to time, engage external professional advisers at the Company's cost as they may consider necessary to advise them on the issues which relate to the above matters;
- (b) any transaction (if any) between (or proposed to be made between) the Group and Connected Persons will be required to comply with Chapter 14A of the Listing Rules, including, where applicable, the announcement, reporting and independent shareholders' approval requirements and with those conditions imposed by the Stock Exchange for the granting of waiver from strict compliance with the relevant requirements under the Listing Rules;
- (c) in the event that there are conflict of interest in the operations of the Group and any of the Core Shareholders or their respective associates, and in respect of any proposed contract or arrangement between the Group and any of the Core Shareholders or their respective associates, any Director who is considered to be interested in a particular matter or the subject matter, he shall disclose his interests to the Board and where, pursuant to the applicable provisions in the Articles, he has a material interest in the matter, he may not vote on the resolutions of the Board approving the same and shall not be counted in the quorum for the voting as required under the Listing Rules. Where appropriate, the interested Directors and other executive Directors will abstain from attending Board meeting, unless requested to attend by a majority of the independent non-executive Directors. A relevant Board meeting

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attended by independent non-executive Directors who have no material interest in the matter shall be held to deliberate on the matters. The parameters used by the independent non-executive Directors in considering whether to pursue or decline a new business opportunity referred to by the relevant Core Shareholder include the following:

- (i) whether our Company has obtained all requisite licences or permits (if applicable), or whether it has complied with all of the applicable laws and regulations to pursue the new business opportunity under consideration;
 - (ii) whether the new business opportunity under consideration is in line with our development strategy;
 - (iii) whether our Company has the requisite financial resources, liquidity, and capacity to pursue the new business opportunity under consideration; and
 - (iv) whether our Company will be in breach of any negative covenants by doing so.
- (d) under the Non-Competition Undertakings to be given by the Core Shareholders, each of the Core Shareholders has undertaken to the Group to allow the Directors, their respective representatives and the auditors of the Group to have sufficient access to the records of the Original Shareholders and/or their respective associates to ensure their compliance with the terms and conditions under the Non-Competition Undertakings.

On the basis that all Directors (except Mr. Chen Lei and Mr. Zhang Kun Mou), and senior management of the Group do not hold any position in the Hua Han Group, and that each of the executive Directors and senior management has extensive and relevant experience in the facial mask and eye mask products business, the Directors are of the view that the Board will have the expertise to transact business which may potentially involve conflicts of interests between the Hua Han Group and the Group objectively, impartially and in the best interest of the Company and its Shareholders as a whole. Besides, conflicts of interests of any overlapping Directors will not affect the business operations of the Group as the daily business operations of the Group in the PRC are operated and implemented by employees of the Group under the strategic directions of the Board, or as the case may be, the experienced and disinterested Board.

The Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between the Hua Han Group, the Management Shareholders and the Group and to protect the interests of the Shareholders, in particular, the minority Shareholders.

Past Non-compliance with the Listing Rules

Background

Share Award Plan

In October 2009, award letters were sent by Magic Holdings to Mr. Tang, Mr. She, Mr. Luo, Mr. Ho and 69 other employees of our Group pursuant to which awards of an aggregate of 1,144 shares of

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Magic Holdings were made to them, subject to the terms and conditions set out in the award letters. At the relevant time, each of Mr. Tang, Mr. She and Mr. Luo was a director of Magic Holdings and/or its subsidiaries and each of Mr. Tang and Mr. She was a substantial shareholder of Magic Holdings. They were therefore connected person of Hua Han. There were in addition four persons among the grantees who were also connected persons of Hua Han by virtue of them being the associate(s) of director(s) of members of the Hua Han Group.

Subsequently in the announcement of Hua Han dated 10 November 2009 (“**Announcement**”), Hua Han announced, among other matters, the adoption of the Share Award Plan. In the course of preparing the Announcement, Hua Han and Magic Holdings were not aware that certain grantees of the awards were connected persons of Hua Han. Therefore, it was only set out in the Announcement that the proposed allotment and issue of the Magic Holdings shares under the Share Award Plan constituted a discloseable transaction for Hua Han under Chapter 14 of the Listing Rules which was subject to the reporting and announcement requirements but not the shareholders approval requirements, and no disclosure was made on the grants to any connected person of Hua Han.

On 11 November 2009, Hua Han received post-vetting comments from the Stock Exchange enquiring, among others, whether the recipients under the Share Award Plan and their respective ultimate beneficial owners were connected person of Hua Han. At the relevant time, there was a mistaken interpretation on what “connected person” of Hua Han should cover and the management of our Group and Hua Han was under a mistaken impression that as the awardees were substantial shareholders and/or members of the management team and employees of our Group, there should not be any “connected person” of Hua Han among the grantees. With the genuine mistaken belief held by the management of our Group and Hua Han, Hua Han mistakenly replied that no connected persons of Hua Han were grantees of awards where in fact seven of the grantees were connected persons of Hua Han.

Our Group and Hua Han were subsequently aware that certain grantees were, in fact, connected persons of Hua Han. However, it was their then interpretation of the Listing Rules implications that although some of the grantees were connected persons of Hua Han, (i) the initial making of the awards by the directors of Magic Holdings as plan administrators to the Share Award Plan Trustee and (ii) the subsequent transfer of such shares by the Share Award Plan Trustee to such grantees, should not be regarded as a connected transaction of Hua Han for the purposes of Chapter 14A of the Listing Rules.

However, in view of the replies to the Stock Exchange’s post-vetting comments made on 11 November 2009, Hua Han should have notified the Stock Exchange immediately after they became aware that certain of the grantees were connected persons of Hua Han and consulted the Stock Exchange whether any remedial action(s) would be required.

It was subsequently noted that the said interpretation was not correct and the initial making of the awards to connected persons of Hua Han should be a connected transaction of Hua Han for the purposes of Chapter 14A of the Listing Rules. Based on the then Listing Rules requirements, such awards would be a connected transaction subject to the reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

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Hua Han failed to note that seven of the grantees were connected persons of Hua Han and consequently, it also failed to comply with Rules 14A.45, 14A.47, 14A.48 and 14A.49 under Chapter 14A of the Listing Rules and such acts constitute non-compliance with the Listing Rules.

Disposal of property

On 30 December 2009, MG Cosmetics entered into an agreement with Mr. She and his spouse pursuant to which a property that was originally occupied by Mr. She and his family as staff quarter was sold to them at a consideration of RMB4,238,000 (“**Disposal of Property**”).

At the relevant time, there was a mistaken interpretation on what “connected person” of Hua Han should cover and the management of our Group and Hua Han did not realise that Mr. She was a connected person of Hua Han by virtue of him being a director of certain subsidiaries of Hua Han and a substantial shareholder of a subsidiary of Hua Han. Hence, the Disposal of Property has not been disclosed by Hua Han by way of announcement.

The Disposal of Property constituted a connected transaction of Hua Han pursuant to Chapter 14A of the Listing Rules. Since each of percentage ratios (other than the profits ratio) was more than 0.1 % but less than 5%, the transaction was subject to the reporting and announcement requirements and was exempt from independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Remedial action

As regards non-compliance with Chapter 14A of the Listing Rules in relation to the Share Award Plan, as a remedial act, Mr. Tang, Mr. She, Mr. Luo and four other grantees who are connected persons of Hua Han each entered into an agreement with Magic Holdings on 19 August 2010 whereby each of them agreed they would not accept the shares of Magic Holdings proposed to be granted to them under the award letters.

For any further grants of Shares under the Share Award Plan, the Company will take appropriate steps to comply with the applicable reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

On 20 August 2010, Hua Han published a supplementary circular to clarify and update the status of the matter relating to the Share Award Plan. On 6 September 2010, Hua Han published an announcement regarding the Disposal of Property.

To ensure our management staff is aware of the Listing Rules requirements and other applicable rules and regulations in order to avoid any non-compliance with the Listing Rules in the future, our Group will endeavour to improve internal control system, for example, by providing regular training, updates and discussion sessions to our senior management team regarding requirements of the Listing Rules and applicable laws and regulations, conducting regular review on the Group’s connected transactions by our management, reviewing our present mode and effectiveness of communication with senior management of our subsidiaries, increasing the frequency of regular meetings or conferences with senior management of our subsidiaries if appropriate, and to take the above incident as an example to inform

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and urge all senior management and directors of our subsidiaries to provide up-to-date information relating to potential discloseable and/or connected transactions as soon as such information arises, etc., in order to ensure our discloseable and/or connected transactions are being monitored, disclosed and/or approved by independent shareholders in accordance with the Listing Rules and to establish stronger communication between senior management of our Company and other members of the Group.

Our Directors have received training session on the Listing Rules and other compliance matters before the Listing to familiarise them with the rules and regulations. Although mistakes had been made by certain of them in the interpretation of the Listing Rules as evidenced in this matter, with the directors training, we consider that our Directors should now have a more thorough understanding of the Listing Rules requirements and they would be very cautious and would from time to time seek advice from professional advisers in order to comply with Listing Rules and other applicable requirements.

Possible consequence

As a result of the non-compliances with the Listing Rules by Hua Han, in its (i) omission to disclose in the Announcement that the grant of awards to certain grantees under the Share Award Plan constituted connected transactions of Hua Han under Chapter 14A of the Listing Rules; (ii) failure to notify the Stock Exchange immediately after having become aware that part of the contents set out in the replies to the Stock Exchange's post-vetting comments made on 11 November 2009 was incorrect, and (iii) failure to publish an announcement regarding the Disposal of Property in accordance with Chapter 14A of the Listing Rules, we consider that the possible consequences for each of the above non-compliances would include the issue of warning letter by the Enforcement Division of the Stock Exchange to Hua Han and the then relevant officers of the Hua Han Group (which include, among others, Mr. Tang, Mr. She and Mr. Luo). Other formal disciplinary sanctions such as private or public censure or withdrawal of listing status may also be imposed by the Stock Exchange where it considers appropriate. However, having considered the remedial actions made by our Group and Hua Han, we consider it is unlikely that a sanction of withdrawal of listing status would be imposed. The Company considers that no disciplinary action under the Listing Rules will be taken against the Directors, the Company or any of its subsidiaries as a result of the non-compliances with the Listing Rules by Hua Han. In this regard, we are aware that the Sole Sponsor has provided a declaration to the Stock Exchange pursuant to Rule 3A.13 of the Listing Rules declaring, among others, that we have established procedures, systems and controls (including accounting and management systems) which are adequate having regard to the obligations of our Company and our Directors to comply with the Listing Rules and other relevant legal and regulatory requirements (in particular Rules 13.09, 13.10, 13.46, 13.48 and 13.49, Chapters 14 and 14A and Appendix 16) and which are sufficient to enable our Directors to make a proper assessment of our financial position and prospects, both before and after Listing.

CONNECTED TRANSACTIONS

CONTINUING CONNECTED TRANSACTIONS

Upon the Listing, the transactions set out below will constitute continuing connected transactions (as such term is defined under the Listing Rules) for the Company.

RELATIONSHIP BETWEEN THE GROUP AND ITS CONNECTED PERSONS

- (1) Hanbul, a substantial shareholder of MG JV BVI and a joint venture partner of the Group under the MG JV Group, an indirect 51%-owned subsidiary of the Company, is a Connected Person of the Company. Hanbul is principally engaged in the business of research and development, manufacturing and sales and marketing of skincare and cosmetics products.
- (2) It's Skin Co., Ltd., a subsidiary of Hanbul, is therefore a Connected Person of the Company.
- (3) Mr. She, one of our Management Shareholders holding approximately 16.2% of the issued Shares as at the Latest Practicable Date and an executive Director, who is therefore a Connected Person of the Company.
- (4) Mr. Zhao Lizhi ("**Mr. Zhao**"), a minority shareholder of Donglisheng holding 30% of the equity interest in Donglisheng as at the Latest Practicable Date, is a Connected Person of the Company.

Under the Listing Rules, for so long as Hanbul, It's Skin, Mr. She or Mr. Zhao remains as a Connected Person of the Company, the following transactions between the Group and Hanbul, It's Skin, Mr. She or Mr. Zhao or their respective associates would constitute continuing connected transactions upon the Listing.

Exempted connected transactions

The following continuing connected transactions will constitute exempted continuing connected transactions for the Company under Rule 14A.33(3) of the Listing Rules and will be exempted from the reporting, announcement and independent Shareholders' approval requirements stipulated under the Listing Rules because they are conducted on normal commercial terms where each of the percentage ratios (other than profits ratio) of the following transactions is on an annual basis less than 0.1%.

(a) Name Use Agreement

By a name use agreement ("**Name Use Agreement**") dated 2 March 2010 and entered into between Magic Holdings and Hanbul, each of Magic Holdings and Hanbul agreed to grant the right to use the trade names and the trademarks containing the word "Magic" and "Hanbul" respectively in the company names in each members of the MG JV Group at a consideration of HK\$1 to each of Magic Holdings and Hanbul and which shall be terminated upon mutual agreement between the parties thereto. The Directors consider that the terms of the Name Use Agreement were agreed between the parties on arm's length basis and in the interest of the Group as a whole.

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The Name Use Agreement was one of the ancillary agreements entered into between the Group and Hanbul and/or its associates to facilitate the set up and business operation of the MG JV Group.

(b) Hanbul Trademarks Licence Agreement

By a trademarks licence agreement ("**Hanbul Trademarks Licence Agreement**") dated 3 September 2010 and entered into between Hanbul and MG JV BVI, Hanbul, being the registered/beneficial owner or legitimate user of or applicant for certain trademarks, agreed to grant a non-exclusive, non-transferable, non-assignable and royalty-free licence to MG JV BVI, including a right to sublicense to its subsidiaries, the right to use such trademarks in certain skincare and cosmetics products and in relation to the business of, inter alia, selling and franchising the said products in Greater China at a licence fee of HK\$1 and for the same term as the Magic-Hanbul JV Agreement and shall be terminated automatically upon the termination or expiration of the Magic-Hanbul JV Agreement, except where the termination was due to a breach of the provisions of the Magic-Hanbul JV Agreement by Hanbul, in such event, the Hanbul Trademarks Licence Agreement shall remain in full force and effect. The Directors consider that the terms of the Hanbul Trademarks Licence Agreement were agreed between the parties on arm's length basis and in the interest of the Group as a whole.

The Hanbul Trademarks Licence Agreement was one of the ancillary agreements entered into between the Group and Hanbul and/or its associates to facilitate the set up and business operation of the MG JV Group.

(c) It's Skin Trademark Licence Agreement

By a trademark licence agreement ("**It's Skin Trademark Licence Agreement**") dated 3 September 2010 and entered into between MG JV BVI and It's Skin Co., Ltd. ("**It's Skin**"), a limited liability company established in Korea and a wholly-owned subsidiary of Hanbul, It's Skin, being the registered/beneficial owner or legitimate user of or applicant for certain trademark, agreed to grant a non-exclusive, non-transferable, non-assignable and royalty-free licence to MG JV BVI, including a right to sublicense to its subsidiaries, the right to use such trademark in certain skincare and cosmetics products and in relation to the business of, inter alia, selling and franchising the said products in Greater China at a licence fee of HK\$1 and for the same term as the Magic-Hanbul JV Agreement and shall be terminated automatically upon the termination or expiration of the Magic-Hanbul JV Agreement, except where the termination was due to a breach of the provisions of the Magic-Hanbul JV Agreement by Hanbul, in such event, the It's Skin Trademark Licence Agreement shall remain in full force and effect. The Directors consider that the terms of the It's Skin Trademark Licence Agreement were agreed between the parties on arm's length basis and in the interest of the Group as a whole.

The It's Skin Trademark Licence Agreement was one of the ancillary agreements entered into between the Group and Hanbul and/or its associates to facilitate the set up and business operation of the MG JV Group.

CONNECTED TRANSACTIONS

(d) Licence of Trademarks and Outlook Designs under the IP Rights Assignment Agreements

Background of the transactions

We have been using certain trademarks and outlook designs in connection with our business which were registered under the name of Mr. She, or the applications for registration of which were under the name of Mr. She. On 15 March 2010, Magic Holdings, a wholly-owned subsidiary of the Company, and Mr. She entered into (i) a trademarks assignment agreement pursuant to which Mr. She agreed to transfer ten trademarks registered under the name of Mr. She to the Group (“**Registered Trademarks Assignment Agreement**”); (ii) 22 outlook designs assignment agreements pursuant to which Mr. She agreed to transfer the outlook designs registered under the name of Mr. She to the Group (“**Outlook Designs Assignment Agreements**”); and (iii) 7 outlook design assignment agreements pursuant to which Mr. She agreed to transfer the applications for registration of outlook designs made under the name of Mr. She to the Group (“**Application for Registration of Outlook Designs Assignment Agreements**”) (collectively, the “**IP Rights Assignment Agreements**”). It was agreed between the Group and Mr. She that Mr. She shall grant to the Group the right to use such trademarks and outlook designs for a period from the date of signing the IP Rights Assignment Agreements up to the date of completion of the assignments under the IP Rights Assignment Agreements.

Major terms

Pursuant to the IP Rights Assignment Agreements, Mr. She agreed to grant a licence to Magic Holdings, for a period from the date of signing the IP Rights Assignment Agreements up to the date of completion of the assignments under the IP Rights Assignment Agreements, to use the trademarks and outlook designs registered under the name of Mr. She and the outlook designs the application for registration of which were made by Mr. She which are the subject of assignment under the IP Rights Assignment Agreements, all of which at nil consideration.

(e) Licence of Trademarks under the Donglisheng Trademarks Assignment Agreements

Background of the transaction

We have been using certain trademarks in connection with our business which was registered under the name of Mr. Zhao, or the application for registration of which was under the name of Mr. Zhao. On 15 March 2010, Donglisheng, a 70% owned subsidiary of the Company, and Mr. Zhao entered into (i) a trademark assignment agreement (“**Donglisheng Registered Trademark Assignment Agreement**”) pursuant to which Mr. Zhao agreed to transfer the trademark registered under the name of Mr. Zhao to Donglisheng; and (ii) a trademark assignment agreement (“**Donglisheng Trademark Application Assignment Agreement**”) pursuant to which Mr. Zhao agreed to transfer the application for registration of a trademark made under the name of Mr. Zhao to Donglisheng (collectively, the “**Donglisheng Trademarks Assignment Agreements**”). It was agreed between the Group and Mr. Zhao that Mr. Zhao shall grant to Donglisheng the right to use such trademarks for a period from the date of signing the Donglisheng Trademarks Assignment Agreements up to the date of completion of the assignments under the Donglisheng Trademarks Assignment Agreements.

CONNECTED TRANSACTIONS

Major terms

Pursuant to the Donglisheng Trademarks Assignment Agreements, Mr. Zhao agreed to grant a licence to Donglisheng, for a period from the date of signing of the Donglisheng Trademarks Assignment Agreements up to the date of completion of the assignments under the Donglisheng Trademarks Assignment Agreements, to use the trademark registered under the name of Mr. Zhao and the trademark the application for registration of which were made by Mr. Zhao which are the subject of assignment under the Donglisheng Trademarks Assignment Agreements, all of which at nil consideration.

Continuing connected transactions subject to the reporting, announcement and (if applicable) independent shareholders' approval requirements in respect of which a waiver has been granted by the Stock Exchange

The following continuing connected transactions of the Company are on normal commercial terms and are subject to the reporting, announcement and (if applicable) shareholders' approval requirements under rules 14A.45 to 14A.56 of the Listing Rules. A waiver application from strict compliance with the relevant announcement and (if applicable) shareholders' approval requirements under the Listing Rules has been submitted to the Stock Exchange, subject to the conditions set out under "Waivers from compliance with announcement and independent shareholders' approval requirements" below.

(a) Exclusive distribution of skincare and cosmetics products

Nature of the transaction and historical figures

Hanbul as supplier agreed to appoint the MG JV Group as the exclusive distributor of certain skincare and cosmetics products in Greater China. As the MG JV Group was established after the Track Record Period, no transaction in relation to distribution of such products was entered into between the parties during the Track Record Period.

Principal terms of the transactions

Pursuant to the exclusive distribution agreement ("**Exclusive Distribution Agreement**") dated 3 September 2010 between Hanbul and MG JV BVI, it was agreed between Hanbul and MG JV BVI that members of the MG JV Group shall act as the exclusive distributor of Hanbul for certain skincare and cosmetics products in stipulated territories. The prices of the products to be supplied by Hanbul for distribution by the MG JV Group shall be the FOB products prices (inclusive of packaging costs) provided by Hanbul and shall be determined prior to the beginning of each financial year by the parties thereto on arm's length basis and with reference to the prevailing market prices of such products or products of the same or substantially similar nature and quality. The purchase of the products by the MG JV Group shall also be on normal commercial terms and comparable to and no less favourable than the terms of purchase of such products by the MG JV Group from Independent Third Parties. The term of the

CONNECTED TRANSACTIONS

Exclusive Distribution Agreement commenced on 1 September 2010 and shall continue in force for a term ending 30 June 2012 and thereafter shall automatically renew every three years (subject to the compliance by the Group of the applicable requirements under Chapter 14A of the Listing Rules) but shall be automatically terminated upon the termination or expiration of the Magic-Hanbul JV Agreement, except due to a breach of the provisions of the Magic-Hanbul JV Agreement in which event the agreement shall remain in full force and effect for a term of 50 years.

Annual monetary caps for the three years ending 30 June 2012

It is expected that the aggregate purchase price payable by the Group to Hanbul under the Exclusive Distribution Agreement for each of the three years ending 30 June 2012 will exceed 25% of each of the percentage ratios (other than the profits ratio) and the annual consideration is more than HK\$10,000,000 on an annual basis calculated by reference to Rule 14.07 of the Listing Rules but will not exceed the annual monetary caps of HK\$0, HK\$10.9 million and HK\$54.5 million, respectively estimated on the basis of the best information available to the Directors as at the Latest Practicable Date. Upon expiry of the waivers granted for the period ending 30 June 2012, the Company will comply with the relevant requirements under the Listing Rules.

The above annual monetary caps were determined by the Directors by reference to (i) the estimated steady increase in market price of the skincare and cosmetics products of the same or substantially similar nature and quality for the two years ending 30 June 2012; and (ii) the estimated increasing sales of the Group's skincare and cosmetics products on the assumption of an increasing trend of demand for high quality skincare and cosmetics products in Greater China and an expansion in sales network of the Group's skincare and cosmetics products throughout the two years ending 30 June 2012. The annual caps were based on the estimated turnover of the Group for certain brands to be distributed by the Group for Hanbul of RMB185 million and RMB537 million for each of the two years ending 30 June 2012 which is based on the estimated average monthly sales of products of certain new brands to be launched by the MG JV Group at all the estimated sales channels. The estimated monthly sales figures are based on (a) the average monthly sales of the Group's existing brands; (b) the average monthly sales of other low to mid range local brands; (c) average monthly sales of certain other imported brands; and (d) the estimated average number of points of sale opened per month for each of the two years ending 30 June 2012. The annual caps were also determined based on the pricing terms of the products under the Exclusive Distribution Agreement of 25% of the retail price of such products in Korea for the year ending 30 June 2011 and 26% of the retail price of such products in Korea for the year ending 30 June 2012.

(b) Sourcing of skincare and cosmetics products

Nature of the transaction and historical figures

Donglisheng has agreed to engage Hanbul to manufacture certain skincare and cosmetics products in Korea. As the said products will be sold by the Group under a new brand to be launched to the markets, no transaction in relation to manufacturing of such products was entered into between the parties during the Track Record Period.

CONNECTED TRANSACTIONS

Principal terms of the transactions

Pursuant to the OEM supply agreement (“**OEM Manufacturing Agreement**”) dated 29 April 2010 and entered into between Hanbul and Donglisheng, the Group agreed to engage Hanbul to produce and manufacture certain skincare and cosmetics products in Korea. The prices of the products to be manufactured by Hanbul and sourced by the Group shall be determined from time to time by the parties thereto on arm’s length basis and with reference to the type of product and the prevailing market rates for the production of such products of the same or substantially similar nature and quality. The sourcing of the products by the Group shall also be on normal commercial terms and comparable to and no less favourable than the terms of sourcing of such products by the Group from Independent Third Parties. The OEM Manufacturing Agreement became effective on 29 April 2010 and shall remain in full force and effect for an initial term of three years and, subject to compliance with the requirements of the Listing Rules, the agreement shall be automatically renewed for additional consecutive three years terms. The OEM Manufacturing Agreement may be terminated prior to the end of the relevant term by either party giving three months’ prior written notice to the other or in the agreement (including if either party becomes insolvent or goes into liquidation).

Annual monetary caps for the three years ending 30 June 2012

It is expected that the aggregate price payable by the Group to Hanbul under the OEM Manufacturing Agreement for each of the three years ending 30 June 2012 will exceed 2.5% of each of the percentage ratios (other than the profits ratio) and the annual consideration is more than HK\$10,000,000 on an annual basis calculated by reference to Rule 14.07 of the Listing Rules but will not exceed the annual monetary caps of HK\$0, HK\$9.9 million and HK\$14.4 million, respectively estimated on the basis of the best information available to the Directors as at the Latest Practicable Date.

The above annual monetary caps were determined by the Directors by reference to (i) the estimated production costs (including the prices of the relevant raw materials and labour costs, etc.) of the skincare and cosmetics products of the same or substantially similar nature and quality and on the assumption that there will not be significant increase or decrease in the production cost; and (ii) the anticipated year-on-year growth in sales on the assumption of an increasing trend of demand for high quality skincare and cosmetics products in the PRC, hence increasing orders to be placed by the Group for sourcing such products to be manufactured by Hanbul, and an expansion in the sales channel of the Group’s skincare and cosmetics products for the two years ending 30 June 2012. The annual caps were also based on the estimated turnover of the Group for the products to be sourced from Hanbul of RMB35 million and RMB50.8 million for each of the two years ending 30 June 2012, which is estimated with reference to the annual turnover came up by the estimated average monthly sales at all the estimated sales channels on the assumption of a sales discount of 60% to the distributors of the Group, and taking into account the existing gross margin of the products of the Group of 75%.

WAIVERS FROM COMPLIANCE WITH ANNOUNCEMENT AND INDEPENDENT SHAREHOLDERS’ APPROVAL REQUIREMENTS

Based on the respective annual monetary caps for the transactions under the Exclusive Distribution Agreement and the OEM Manufacturing Agreement as mentioned above, it is expected that each of the

CONNECTED TRANSACTIONS

percentage ratios (other than the profits ratio), where applicable, calculated by reference to Rule 14.07 of the Listing Rules, in respect of the transactions under the Exclusive Distribution Agreement and the OEM Manufacturing Agreement will exceed the threshold under Rule 14A.34 of the Listing Rules, and therefore these transactions are subject to the reporting, announcement and independent shareholders' approval requirements set out in Rule 14A.45 to 14A.48 of the Listing Rules. The Company has applied to the Stock Exchange, and the Stock Exchange has granted, a waiver pursuant to Rule 14A.42(3) of the Listing Rules to exempt the transactions under the Exclusive Distribution Agreement and the OEM Manufacturing Agreement from compliance with the announcement and the independent shareholders' approval requirements under Rules 14A.47 and 14A.48 of the Listing Rules.

Application for waivers

(a) Reasons for the application

Given that the transactions under the Exclusive Distribution Agreement and the OEM Manufacturing Agreement will be carried out following the Listing on a recurring basis, and these agreements were entered into in the ordinary and usual course of business and on normal commercial terms, as the case may be, from the perspective of the Group, and that the respective terms of the transactions and the annual monetary caps as mentioned above are fair and reasonable and in the interests of the Shareholders as a whole, the Company applied to the Stock Exchange for, and was granted waivers from strict compliance with the relevant announcement and independent shareholders' approval requirements in respect of these transactions for the two years ending 30 June 2012 on the conditions set out below.

(b) Compliance with application rules set out in Chapter 14A of the Listing Rules

The annual cap amounts for the continuing connected transactions under each of (i) the Exclusive Distribution Agreement; and (ii) the OEM Manufacturing Agreement for each of the two financial years ending 30 June 2012 as stated above will not be exceeded.

The Company will comply with Rules 14A.37 to 14A.41 and 14A.45 to 14A.46 of the Listing Rules in relation to the transactions under the Exclusive Distribution Agreement and the OEM Manufacturing Agreement.

Upon expiry of the waivers granted for the period ending 30 June 2012, the Company will comply with the relevant requirements under Chapter 14A of the Listing Rules.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable provisions under Chapter 14A of the Listing Rules as at the date of this prospectus relating to the continuing connected transactions, the Company will take immediate steps to ensure compliance with such requirements within a reasonable period.

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(c) Confirmation from the Directors

The Directors, including the independent non-executive Directors, confirm that all of the transactions under the Exclusive Distribution Agreement and the OEM Manufacturing Agreement were entered into on normal commercial terms, in the ordinary and usual course of business and are fair and reasonable to the Group on the basis that the terms of the relevant agreements are no less favourable to the Group than terms offered by Independent Third Parties, and therefore are in the interests of the Company and the Shareholders as a whole.

The Directors, including the independent non-executive Directors, are of the view that the respective annual monetary caps of the transactions under the Exclusive Distribution Agreement and the OEM Manufacturing Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(d) Confirmation from the Sole Sponsor

The Sole Sponsor is of the view that the transactions under the Exclusive Distribution Agreement and the OEM Manufacturing Agreement are in the ordinary and usual course of business and on normal commercial terms and that the terms of the abovementioned continuing connected transactions and their respective annual monetary caps set out above are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Our Board consists of eight Directors, including five executive Directors and three independent non-executive Directors. Among the five executive Directors, three of them are each a Management Shareholder. As a majority of the executive Directors are the Management Shareholders (who are also the original shareholders who have been holding interest in the Group for a substantial period of time), who will have strong commitment to the business development and management of the Group, and are therefore likely to remain as Directors for long term, the Directors consider that the Company will be able to maintain its Board structure and composition after Listing.

The information of our Directors is set out as follows:

Name	Age	Position/Title
Mr. Tang Siu Kun Stephen (鄧紹坤先生)	45	Chairman and executive Director
Mr. She Yu Yuan (佘雨原先生) (formerly known as She Dan Dan (佘丹丹) and She Jing Yang (佘勁楊))	38	General manager and executive Director
Mr. Luo Yao Wen (駱耀文先生)	52	Deputy general manager and executive Director
Mr. Zhang Kun Mou (張昆謀先生)	47	Executive Director
Mr. Chen Lei (陳磊先生)	39	Executive Director
Prof. Dong Yin Mao (董銀卯先生)	46	Independent non-executive Director
Prof. Yang Rude (楊汝德先生)	64	Independent non-executive Director
Mr. Yan Kam Tong (甄錦棠先生)	46	Independent non-executive Director

Executive Directors

Mr. Tang Siu Kun, Stephen (鄧紹坤), aged 45, a co-founder of our Group, is the Chairman and an executive Director of our Company appointed on 9 February 2010. He is responsible for the overall strategic planning, financial planning and corporate management of our Group. Mr. Tang graduated from the Curtin University of Technology in Australia with a bachelor's degree in Commerce in 1995. Mr. Tang obtained a master's degree in International Business Management from the City University of Hong Kong (香港城市大學) in 1999. He is also a member of the CPA Australia and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Tang joined the Hua Han Group in 2000 and has over 10 years experience in corporate management and strategic planning. Since joining the Hua Han Group, Mr. Tang had held various senior positions with the Hua Han Group, including vice president, company secretary and qualified accountant. He is a director and the chairman of Magic Holdings, a director of each of the subsidiaries of the Group.

Mr. She Yu Yuan (佘雨原) (formerly known as She Dan Dan (佘丹丹) and She Jing Yang (佘勁楊)), aged 38, a co-founder of our Group, is the general manager and an executive Director of our Company appointed on 6 September 2010. He is responsible for overseeing the operations of the business of our Group. Mr. She graduated from South China University of Technology (華南理工大學) in 1994 with a diploma in food engineering. Prior to joining the Group, he was the founder and general manager of 廣州原禾健康科技有限公司 (unofficial translation being Guangzhou Yuan He Health Technology Company Limited (for identification purpose only)), a company engaged in the sales and marketing of

DIRECTORS AND SENIOR MANAGEMENT

skincare products in the PRC, in 2000. He has over 10 years market and corporate management experience and possesses a strong market sense, strategic sight and innovative mind. Mr. She joined our Group in 2005 when our Group was founded. He is a director of each of the subsidiaries of the Group.

Mr. Luo Yao Wen (駱耀文), aged 52, a co-founder of our Group, is the deputy general manager and an executive Director of our Company appointed on 6 September 2010. He is responsible for overseeing the production and research and development of our Group. Prior to joining our Group, he was the general manager of 廣州夏娃化妝品有限公司 (Guangzhou Eve Cosmetics Company Limited) and 廣州奧柏化妝品廠 (Guangzhou Oubo Cosmetics Laboratory) from 1993 to 1997 and from 1997 to 2003 respectively. Mr. Luo has over 10 years experience in production and research and development of the cosmetics industry. He joined our Group in 2005 when our Group was founded and is the deputy general manager of Magic Holdings. He is also a director of MG Cosmetics and MG Bio-tech. He is the spouse of Ms. Wen Yan Juan, the head of the production department of our Group.

Mr. Zhang Kun Mou (張昆謀), aged 47, was appointed as an executive Director of our Company on 6 September 2010. He is the General Manager of Guizhou Factorr Bio-Technology Co., Ltd (貴州泛特爾生物技術有限公司) (“**Guizhou Factorr**”), a company established in the PRC indirectly owned as to 75% by Hua Han. Mr. Zhang graduated from Harbin Engineering University (哈爾濱工程大學) (formerly known as Harbin Vessel Engineering College, (哈爾濱船舶工程學院) and obtained a bachelor degree in Engineering in 1984. In 1989, he graduated from Shanghai Donghua University (上海東華大學) (formerly known as China Textile University (中國紡織大學), with a master degree in engineering and served as a senior engineer. Mr. Zhang joined the Hua Han Group in 2000 and is responsible for managing the production facilities of Guizhou Factorr, a subsidiary of Hua Han.

Mr. Chen Lei (陳磊), aged 39, was appointed as an executive Director of our Company on 6 September 2010. He is the assistant to General Manager of the Hua Han Group. Mr. Chen graduated from the Jiangxi University of Finance and Economics (江西財經大學) in 1997. He was awarded the Master of Business Administration in Executive Management by Royal Roads University of Canada in 2009. He joined the Hua Han Group in 2002 and is currently responsible for assisting the Hua Han Group’s General Manager in financial management of operations in Mainland China. Mr. Chen had been a supervisor of Guangdong Qunhe for the period from May 2005 to June 2009.

Independent non-executive Directors

Prof. Dong Yin Mao (董銀卯), aged 46, is an independent non-executive Director of our Company appointed on 6 September 2010. He graduated from Beijing Institute of Light Industry (北京輕工業學院) in 1986 with a bachelor’s degree in environmental conservation, and later obtained a master’s degree in fine chemistry in 1993 with the same institute. He is currently a professor of The Beijing Technology and Business University (北京工商大學). He has published numerous articles concerning the manufacture and design of cosmetic with publishers specialised in the field, and he has obtained the qualification of researcher (研究師) accredited by the Senior Vocational Title Inspecting Committee of Beijing Municipality (北京市高級專業技術職務評審委員會) in 2002.

DIRECTORS AND SENIOR MANAGEMENT

Prof. Yang Rude (楊汝德), aged 64, is an independent non-executive Director of our Company appointed on 6 September 2010. Prof. Yang graduated from the then South China Institute of Technology (華南工業學院, currently known as South China University of Technology (華南理工大學)) with a bachelor's degree in food engineering in 1970, where he has held a teaching position for about 40 years. He furthered his study at The University of Science of Technology of China (中國科技大學) in 1981. He was promoted as a professor in 2000 at South China University of Technology (華南理工大學). He was a standing executive of the Chinese Medicine Society of Guangdong Province (廣東省醫藥行業協會) and the Vice-President of the Association of Microbiology of Guangdong Province (廣東省微生物學會).

Mr. Yan Kam Tong (甄錦棠), aged 46, is an independent non-executive Director of our Company appointed on 6 September 2010. Mr. Yan earned a Master of Arts degree in International Accounting from The City University of Hong Kong, and is a member of CPA Australia, the Hong Kong Institute of Certified Public Accountants and a CFA charterholder of the CFA Institute. He has over twenty years of experience in the financial and general management fields. He is the Chief Financial Officer and Responsible Officer of Quantsmile (HK) Limited, a licensed corporation under the SFO for type 9 (asset management) regulated activities under the SFO. He has also held mid-ranking and senior positions in asset management companies, namely, Hamon Asset Management Limited from 2006 to 2009, and Winnington Capital Limited from 2001 to 2006 for over eight years in the areas of finance, operation and compliance.

Save as disclosed above, each of our Directors (i) did not hold other positions in our Company or other members of our Group as at the Latest Practicable Date; (ii) had no other relationship with any Directors, senior management or substantial or Controlling Shareholders of our Company as at the Latest Practicable Date; and (iii) did not hold any other directorships in listed public companies the securities of which are listed on any securities market in Hong Kong or overseas in the three years prior to the Latest Practicable Date. As at the Latest Practicable Date, save as the interests of Mr. Tang, Mr. She and Mr. Luo in the Shares which are disclosed under the paragraphs headed (d) "Interests and short positions of our Directors in the shares, underlying shares or debentures of our Company and our associated corporations following the Global Offering" in the section headed "Statutory and General Information" as set out in Appendix VI to this prospectus, each of our Directors did not have any interest in the Shares within the meaning of Part XV of the SFO.

Save as disclosed herein, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no other matter with respect to the appointment of our Directors that needs to be brought to the attention of the Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules as at the Latest Practicable Date.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Feng Hong (馮洪), aged 49, is the deputy general manager of our Group. In 2001, Mr. Feng was awarded the postgraduate certificate from the Guangdong Academy of Social Science (廣東省社會科學院) majoring in economic management. Mr. Feng has over seven years experience in human resources and administration management. He joined our Group in 2005 when our Group was founded and is responsible for overseeing human resources and administration of our Group.

Ms. Lu Min (盧敏), aged 45, is the chief accountant of our Group, she joined us in 2005 when our Group was founded. In 2005, she graduated from China Central Radio and Television University (中央廣播電視大學) and obtained a bachelor's degree in financial accounting. She has over seven years experience in the financial field and is familiar with the financial operational process of our Group.

Mr. Liu Liang Zhe (劉良哲), aged 34, is the assistant to the general manager of our Group. Mr. Liu joined our Group in 2010. He graduated from Hunan Commerce College (湖南商學院) in sales and marketing in 1995. Mr. Liu has over ten years experience in strategic work with an advertising company and is now responsible for assisting the general manager in the planning of management strategy and sales management strategy of our Group.

Mr. Zhao Xin Fa (趙新發), aged 34, is the head of the marketing department of our Group. Mr. Zhao joined our Group in 2005 when our Group was founded. Mr. Zhao obtained a bachelor's degree in public relations from the Hua Nan Tropical Agricultural University (華南熱帶農業大學) in 1997. He has over eight years experience in sales and marketing.

Mr. Zeng Hui (曾暉), aged 40, is the head of the sales department of our Group. Mr. Zeng joined our Group in 2005 when our Group was founded. Mr. Zeng obtained a bachelor's degree in mechanical technology and equipment from the Yuzhou University (渝州大學) in 2004, and has extensive experience in sales and marketing.

Ms. Wen Yan Juan (溫燕娟), aged 49, is the head of the production department of our Group. Ms. Wen joined our Group in 2005 when our Group was founded, and is the spouse of Mr. Luo Yao Wen, an executive Director. She is well-versed in the operational aspect of the cosmetic industry and is now working with our production Department.

Mr. Piao Ying Zhe (朴英哲), aged 37, is the head of the market research department of our Group. Mr. Po joined our Group in 2006. Mr. Po obtained a bachelor's degree in Laws from The Song Hua Jiang University (松花江大學) in 1993. He was engaged in the sales management of several enterprises in the PRC of the industry. He has been working in our Company for over three years, his past positions held with our Company includes the manager of the communication department and head of the sales department.

Mr. Ho Cheung Ping Dawnie (何掌平), aged 44, is the head of the corporate development department of our Group. Mr. Ho joined our Group in 2005 when our Group was founded. He has over 10 years experience in the planning and production of commercial advertisement. His directed works has won the Outstanding Award of the Ninth Session of Outstanding Advertisement of Guangdong Province (Video) (廣東省第九屆廣告優秀作品(影視類)).

DIRECTORS AND SENIOR MANAGEMENT

Ms. Ng Wing Yin (吳詠妍), aged 26, is the finance manager of the Group and Company Secretary of our Company. She joined our Group in March 2010 and is responsible for our Group's financial management. She graduated from The Hong Kong Polytechnic University with a bachelor's degree in Accountancy, and is currently a member of the Hong Kong Institute of Certified Public Accountants. Prior to joining our Group, she worked in two accounting firms and has accumulated over 5 years of experience in auditing and accounting.

Mr. Yu Bin (于彬), aged 28, is the manager of the customer services department of our Group. Mr. Yu joined our Group in 2006. He received a diploma in financial accounting from Liaoning Taxation College (遼寧稅務高等專科學校) in 2003.

COMPANY SECRETARY

Ms. Ng Wing Yin (吳詠妍), aged 26, was appointed as the company secretary of our Company in March 2010. Her details is set out in the section headed "Senior Management" above.

STAFF

We maintain good working relations with our staff. We have not experienced any significant problems with the recruitment and retention of experienced employees. In addition, we have not suffered from any material disruption of our normal business operations as a result of labour disputes or strikes.

The following table sets out a breakdown of our employees and contract staff by function as of 30 April 2010:

Division	Number of our employees and contract staff
Management	35
Sales and marketing ⁽¹⁾	1,028
Manufacturing	123
Research and development/quality control	36
Administration/finance	36
Total	<u><u>1,258</u></u>

Note:

(1) Of this total, we had 881 salespersons and 131 sales representatives hired through an Independent Third Party employment agency.

Benefits

As required by the PRC regulations on social insurance, we participate in the social insurance schemes operated by the relevant local government authorities which include retirement pension, medical insurance, unemployment insurance, industrial injuries insurance and maternity insurance.

DIRECTORS AND SENIOR MANAGEMENT

Compensation

The aggregate emoluments paid and benefits in kind to our Directors for the three years ended 30 June 2007, 2008 and 2009 and the ten months ended 30 April 2009 and 2010 were approximately HK\$0.4 million, HK\$1.0 million, HK\$1.2 million, HK\$1.0 million and HK\$8.2 million, respectively. Details of the arrangement for remuneration are set out in section ten to the accountants' report in Appendix I to this prospectus. Under such arrangement and pursuant to the Directors' service agreements and letters of appointment referred to in the paragraph headed "Particulars of Directors' service contracts and letters of appointment" under the section headed "Statutory and General Information" as set out in Appendix VI to this prospectus, the aggregate amount of directors' fee and other emoluments payable to our Directors for the year ended 30 June 2010 is estimated to be approximately HK\$11.6 million, including the one-off benefit under the Share Award Plan of approximately HK\$9.3 million and excluding any discretionary bonuses.

Our Directors and senior management receive compensation in the form of salaries, benefits in kind and/or discretionary bonuses relating to the performance of our Group. We also reimburse them for expenses which are necessarily and reasonably incurred for providing services to us or executing their functions in relation to our operations. We regularly review and determine the remuneration and compensation packages of our Directors and senior management.

After Listing, our remuneration committee will review and determine the remuneration and compensation packages of our Directors and senior management with reference to salaries paid by comparable companies, time commitment and responsibilities of our Directors and performance of our Group.

During the Track Record Period, no remuneration was paid by us to, or received by, our Directors as an inducement to join or upon joining us. We estimate that we will pay an aggregate amount of approximately HK\$5.3 million to our Directors as remuneration in respect of the year ending 30 June 2011, excluding any discretionary bonuses which may be paid to our Directors.

BOARD COMMITTEES

Audit committee

Our Company established an audit committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules pursuant to a resolution of our Directors passed on 6 September 2010. The primary duties of our audit committee are mainly to make recommendations to our Board on the appointment and removal of the external auditor, review the financial statements and material advice in respect of financial reporting and oversee the internal control procedures of our Company. At present, our audit committee comprises Mr. Yan Kam Tong, Prof. Dong Yin Mao and Prof. Yang Rude, all being independent non-executive Directors. Mr. Yan Kam Tong is the chairman of our audit committee.

DIRECTORS AND SENIOR MANAGEMENT

Remuneration committee

Our Company established a remuneration committee on 6 September 2010 with written terms of reference. The primary functions of our remuneration committee are to make recommendation to our Board on the overall remuneration policy and structure relating to all Directors and senior management of our Group, review performance based remuneration and ensure none of our Directors determine their own remuneration. At present, our remuneration committee comprises Mr. Tang, Prof. Dong Yin Mao and Mr. Yan Kam Tong, two of them being independent non-executive Directors and one of them being an executive Director. Prof. Dong Yin Mao is the chairman of our remuneration committee.

COMPLIANCE ADVISER

We have appointed Taifook Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us, among others, at the following circumstances:

- (a) before the publication of any regulatory announcement, circular or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- (c) where our Company proposes to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus; and
- (d) where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares.

The term of appointment our compliance adviser shall commence on the Listing Date and end on the date of despatch of our annual report in respect of our financial results for the first full financial year commencing after the Listing Date and such appointment shall be subject to extension by mutual agreement.

SHARE CAPITAL

The following is a description of the authorised and issued share capital of the Company as at the date of this prospectus and immediately after completion of the Global Offering:

Authorised share capital:

	HK\$
<u>2,000,000,000</u> Shares	<u>200,000,000</u>

Issued and to be issued, fully paid or credited as fully paid

- (a) Assuming the Over-allotment Option is not exercised, the Company's share capital immediately following the Global Offering will be as follows:

	Number	HK\$
	4,576,600	Shares in issue at the date of this prospectus
	595,423,400	Shares to be issued pursuant to the Capitalisation Issue
	180,000,000	Shares issued under the International Offering (subject to reallocation)
	<u>20,000,000</u>	Shares issued under the Hong Kong Public Offering
Total:	<u>800,000,000</u>	<u>80,000,000</u>

- (b) Assuming the Over-allotment Option is exercised in full, the Company's share capital immediately following the Global Offering will be as follows:

		HK\$
	4,576,600	Shares in issue at the date of this prospectus
	595,423,400	Shares to be issued pursuant to the Capitalisation Issue
	210,000,000	Shares issued under the International Offering (subject to reallocation)
	<u>20,000,000</u>	Shares issued under the Hong Kong Public Offering
Total:	<u>830,000,000</u>	<u>83,000,000</u>

SHARE CAPITAL

Assumptions

This table assumes that the Global Offering becomes unconditional. It takes no account of any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme or any Shares which may be allotted, issued or repurchased or issued by the Company under the general mandates granted to the Directors.

Ranking

The Offer Shares will rank *pari passu* in all respects with all other Shares in issue and/or to be allotted and issued as mentioned in this prospectus, and in particular, will rank in full for all dividends and other distributions hereafter declared, paid or made on the Shares after the date of this prospectus, save for entitlement under the Capitalisation Issue.

ISSUING MANDATE

Subject to the Global Offering becoming unconditional, the Directors have been granted a general unconditional mandate to allot, issue and deal with unissued Shares with an aggregate nominal value not exceeding the sum of:

- 20% of the total nominal amount of the share capital of the Company in issue immediately following completion of the Global Offering and the Capitalisation Issue, excluding Shares that may fall to be issued pursuant to the exercise of the Over-allotment Option or the exercise of options that may be granted under the Share Option Scheme; and
- the total amount of the share capital of the Company repurchased by the Company (if any) pursuant to the Repurchase Mandate.

The Issuing Mandate does not apply to situations where the Directors allot, issue or deal with the Shares by way of rights issue, scrip dividend schemes or similar arrangements providing for the allotment and issue of the Shares in lieu of whole or part of any dividend in accordance with the Articles, or pursuant to the exercise of any subscription or conversion rights attaching to any warrants or any securities which are convertible into Shares or pursuant to the Share Offer, the Capitalisation Issue or the exercise of the Over-allotment Option, or the Shares to be issued upon the exercise of options to be granted under the Share Option Scheme (but shall include Shares that may be allotted and issued to the Share Award Plan Trustee for the purpose of the Share Award Plan, which shall not exceed 10% of the total number of issued Shares as at the beginning of the relevant financial year (from the Listing Date up to the financial year ending 30 June 2011, no further Shares will be allotted and issued to, subscribed for and/or purchased by the Share Award Plan Trustee for the purpose of the Share Award Plan).

The Directors may, in addition to the Shares which they are authorised to issue under the Issuing Mandate, allot, issue and deal in the Shares pursuant to a rights issue, an issue of Shares pursuant to the exercise of subscription rights attaching to any warrants of the Company, scrip dividends or similar arrangements or the exercise of any options that may be granted under the Share Option Scheme or any other option scheme or similar arrangement for the time being adopted.

SHARE CAPITAL

The Issuing Mandate will expire:

- on the conclusion of the Company's next annual general meeting; or
- upon the expiration of the period within which the Company is required by law or its Articles to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

Further information on the Issuing Mandate is set out under "Further information about our Company and our subsidiaries — Resolutions in writing of all the shareholders passed on 6 September 2010" in Appendix VI to this prospectus.

REPURCHASE MANDATE

Subject to the Global Offering becoming unconditional, the Directors have been granted a general unconditional mandate to exercise all the powers of the Company to repurchase Shares with a total nominal value of not more than 10% of the total nominal amount of the share capital of the Company in issue and to be issued immediately following completion of the Global Offering and the Capitalisation Issue excluding Shares which may be issued pursuant to the exercise of the Over-allotment Option or the exercise of options that may be granted under the Share Option Scheme.

The Repurchase Mandate relates only to repurchases made on the Stock Exchange and/or on any other stock exchange on which the Shares are listed (and which are recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with the Listing Rules. A summary of the relevant requirements under the Listing Rules is set out under "Repurchase by our Company of its own securities" in Appendix VI to this prospectus.

The Repurchase Mandate will expire:

- on the conclusion of the Company's next annual general meeting; or
- upon the expiration of the period within which the Company is required by law or its Articles to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.



Further information on the Repurchase Mandate is set out under "Further information about our Company and our subsidiaries — Resolutions in writing of all the shareholders passed on 6 September 2010" and "Further information about the Company and its subsidiaries — Repurchase by our Company of its own securities" in Appendix VI to this prospectus.


FINANCIAL INFORMATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis in conjunction with our combined financial information, including the accompanying notes thereto, set out in Appendix I to this prospectus. Our combined financial information has been prepared in accordance with HKFRSs. The following discussion and analysis also contain forward-looking statements that involve risks and uncertainties. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of factors including the factors set out in the section headed "Risk Factors" in the prospectus.

OVERVIEW

Our 美即 brand is the leading brand in the facial masks industry in China. According to the CTR Reports, our 美即 brand had the largest market share of 15.1% in the facial mask industry in China in 2009 in terms of retail sales. We are principally engaged in the research and development, manufacture and sales and marketing of facial masks and other skincare products in China.

We focus predominantly on and offer a diversified mix of facial mask products with different characteristics to cater for different skin types and satisfy consumer needs in China. As of 30 April 2010, we offered 11 series and 141 types of facial mask products under the brand of 美即. We sell all our products through an established network of distributors and retailers in China. For the three years ended 30 June 2007, 2008 and 2009 and the ten months ended 30 April 2009 and 2010, 69.3%, 71.8%, 83.1%, 82.3% and 92.9% of our revenue was derived through our distributors and 30.7%, 28.2%, 16.9%, 17.7% and 7.1% of our revenue was derived through our retailers. As of 30 April 2010, we had 75 distributors and one retailer spread over 21 provinces, two autonomous regions and four municipalities in China. As of 30 April 2010, our products were distributed by our distributors to 3,330 points of sale in China. As of 30 April 2010, we had 881 salespersons hired through an Independent Third Party employment agency actively promoting and selling our products on the ground and interfacing with consumers at our points of sale throughout China.

For further information about our business and operations, please refer to the section headed "Business" in this prospectus.

BASIS OF INFORMATION

Pursuant to the Reorganisation, as more fully described in the section headed "History, Reorganisation and Corporate Structure" in the prospectus and in Appendix VI "Statutory and General Information" to this prospectus, the Company became the holding company of the companies now comprising the Group. Our financial information presents our results of operations, financial position and cash flows of the companies now comprising the Group and has been prepared as if the current group structure had been in existence at the beginning of the Track Record Period, or since the companies' respective dates of incorporation or establishment, where there is a shorter period.

FINANCIAL INFORMATION

The financial information of our Group for the Track Record Period as set out in Appendix I “Accountants’ Report” to this prospectus has been prepared on a combined basis by applying the principles of merger accounting. Intra-group transactions and balances and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the combined financial information for our Group.

KEY FACTORS AFFECTING FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF THE GROUP

The Group’s financial condition and results of operations have been, and will continue to be, affected by a number of factors, including those set out below.

Ability to maintain brand recognition and marketing success of our products

We believe brand image is important to consumers’ purchasing decisions. Our brands are therefore critical to the success of our business. We place great emphasis on brand building and we promote our products through a series of advertising and promotional campaigns. For the three years ended 30 June 2007, 2008 and 2009 and the ten months ended 30 April 2009 and 2010, our sales and promotional expenses accounted for approximately 71.3%, 74.9%, 72.3%, 74.4% and 78.1%, respectively of our total selling and distribution costs. Our ability to maintain and promote the recognition of our brands in the market through our marketing efforts will affect our sales growth and results of operations.

Consumer preferences and consumption patterns

Our results of operations are largely affected by consumer preferences for facial mask and skincare products in the PRC and consumers’ continuing demand for our products in the markets. We have benefited from an increasing demand for skincare products in the PRC primarily due to the trends of improving per capita disposable income and improvement in living standard in the PRC. However, consumer preferences and consumption patterns constantly change. Demand for our products may be adversely affected if consumers’ belief that skincare products may improve their lifestyle or satisfy their needs is weakened. In addition, new products from our competitors may cause a change in consumer preferences, leading to a change of consumption patterns towards other types of facial mask and skincare products. Nonetheless, we currently expect continued increase in the penetration rate for facial masks in China and continued demand for our products. We expect the market for our products to continue to grow in the near future. Through better allocation and investment of our resources, we are dedicated to optimising our brands and product mix to reach more consumers, maximise our growth potential in existing and new markets, increase our market share and strategically position ourselves to benefit from new trends in the facial mask and skincare industries.

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Distribution and retail network

Our ability to increase our sales and profit is directly affected by the coverage of our distribution and retail network as well as our ability to continue to attract distributors and retailers to purchase our products. As of 30 April 2010, we had 75 distributors and one retailer spread over 21 provinces, two autonomous regions and four municipalities in China. As of 30 April 2010, our products were distributed by our distributors to 3,330 points of sale in China. The number of our distributors and retailers increased over the Track Record Period as we expanded our distribution and retail network.

Our sales and profit growth will continue to depend on our ability to expand through finding suitable distributors and retailers and their respective ability to further promote and sell our products. We have been focusing on sales to distributors that have wide coverage in China. We select different distributors for different districts to take advantage of their knowledge of the local distribution network and utilise their distribution capability. We anticipate that the number of distributors and retailers will continue to grow with our domestic and overseas expansion, launch of new products, and increasing brand recognition.

For the three years ended 30 June 2007, 2008 and 2009 and the ten months ended 30 April 2009 and 2010, sales to our distributors represented 69.3%, 71.8%, 83.1%, 82.3% and 92.9%, respectively of our total revenue. Sales to retailers correspondingly represented a smaller portion of our overall sales. The profit margins derived from sales to retailers tend to be higher due to our ability to command higher selling prices by reducing intermediate distributors. Nevertheless, we plan to continue our selling efforts in the sales to our distributors to take advantage of their distribution network in order to expand our overall consumer base more effectively and efficiently and minimise our warehousing and logistics costs.

Competitive dynamics

The skincare industry in China is highly competitive and consumers are tempted to shift their choices and preferences whenever there are new products launched or introduced by various marketing and pricing campaigns of different brands. Our financial condition and results of operations will be affected by our ability to remain competitive in this industry, which in turn depends on our ability to compete effectively by responding rapidly to market trends, increasing our brand awareness and differentiating our products from those offered by our competitors in ways that will appear to consumers.

Product mix

We offer an extensive range of facial mask products to consumers. Changes in the mix of products we sell, whether by brand or by product, will impact our sales and profitability. Profitability might differ due to various reasons including the different pricing ability of various products as well as the costs associated with developing, producing, launching and marketing new and existing products.

Going forward, we intend to introduce other skincare products. In March 2010, we entered into the Magic-Hanbul JV Agreement, under which, among others, we agreed to market, sell and/or distribute cosmetic and skincare products under the “It’s Skin” and “ICS” brands in Greater China. These products

FINANCIAL INFORMATION

are planned to be sold via single-branded shops operated by MG JV Group under the “It’s Skin” brand and through cosmetics speciality stores and personal care chain stores under the “ICS” brand. Further, we have entered into an OEM supply agreement with Hanbul whereby Hanbul agreed to manufacture skincare products under the brand of “Keep UP” in Korea for us.

Changes to our brand and product mix can be due to various reasons such as a change in our promotional efforts for certain products, the launching of new brands or product series, or a change in consumer demand for certain brands or products. We will continue to optimise our brand and product mix, through monitoring market trends, competition, consumer preferences and our sales.

Pricing

Our results of operations are also affected by our pricing. Our profitability, among other things, depends on the price competitiveness of our products. We generally apply standard pricing policies to our distributors and retailers. Our products are sold to our distributors and retailers at a specified range of discounts from our pre-set nationwide uniform retail prices. The level of the discount depends largely on the performance of our distributors and retailers, the level of services they provide, the type of products ordered as well as the nature of the orders and their location. In determining the pre-set nationwide uniform retail prices of our products, we take into account market supply and demand, production costs and competitors’ prices. We expect the sale prices of our products to continue to be driven by these factors.

Costs of raw materials and packaging materials

Costs of raw materials and packaging materials represent a significant portion of our revenue. For the three years ended 30 June 2007, 2008 and 2009 and the ten months ended 30 April 2009 and 2010, such costs represented 22.2%, 22.0%, 25.4%, 22.8% and 20.7%, respectively, of our revenue. As such, any significant fluctuation in the price of raw materials and packaging materials may have a significant impact on our profitability.

Our raw materials mainly include water, essence ingredients and non-woven cloth. Packaging materials mainly include paper boxes, transparent shrink films, composite packaging materials and labels. During the Track Record Period, we did not experience any material price fluctuations for our raw materials and packaging materials since we purchased these materials in large quantities and as a result, we had bargaining power with our suppliers to obtain better prices. Most of the raw materials and packaging materials we use are also readily available from other independent suppliers.

During the Track Record Period, we had not used any financial instruments to hedge against future price fluctuations of our raw materials and packaging materials nor do we plan to do so in the near future.

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CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of our financial statements requires us to make judgments in selecting the appropriate estimates and assumptions that affect the amounts reported in our financial statements. Actual results may differ from these estimates under different assumptions and conditions. The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing our combined financial information. By their nature, these judgments are subject to an inherent degree of uncertainty. These judgments are based on, among other things, our experience, our observance of trends in the industry, and information available from outside sources, as appropriate. There can be no assurance that our judgments will prove correct or that actual results reported in future periods will not differ from our expectations reflected in our accounting treatment of certain items. Our critical accounting estimates and judgments are set out in detail in section four of the accountants' report in Appendix I to this prospectus. We have identified the policies below as critical to our business operations and the understanding of our financial condition and results of operations.

We review our estimates and underlying assumptions on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Revenue Recognition

We measure revenue from the sale of goods at the fair value of the consideration received or receivable, net of returns and trade discounts and excluding value added tax or other sales taxes. We recognise revenue when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods. Transfers of risks and rewards vary depending on the individual terms of contract of sales. Usually transfer occurs when the product is received at the customer's warehouse. For sales that contain a right of return by a customer, we recognise revenue only if the amount of future returns can be reasonably estimated. We usually make such estimation based on our past experience of actual sales returns. We did not experience any material returns over the Track Record Period. Accordingly, no returns subsequent to the Track Record Period were estimated and offset against our revenue over the Track Record Period. Sale returns are generally offset against the revenue in the period such returns occur.

Impairment of assets

We recognise an impairment loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statements in the period in which it arises in those expense categories consistent with the function of the impaired asset. An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may

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no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. An impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation / amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statements in the period in which it arises.

Impairment of receivables

Trade and other receivables that are carried at cost or amortised costs are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

Impairment of goodwill

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment; and
- intangible assets with finite useful lives.

If such an indication exists, the asset's recoverable amount is estimated.

Estimates in determining impairment of receivables and other assets

Our management's judgment is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may affect the asset value, or such an event affecting the asset value has not been in existence; (ii) whether the carrying value of an asset can be supported by the net present value of future cash flows, which are estimated based upon the continued use of the asset; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairments, including the discount rates or the growth rate

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assumptions in the cash flow projections, could materially affect the net present value used in the impairment test. If there is a significant adverse change in the projected performance and the resulting future cash flow projections and the discount rates, it may be necessary to take an impairment charge to the income statement, which will affect the Group's financial condition and results of operations only when the resulting net present value used in the impairment test is lower than the book value of the assets.

Depreciation and amortisation

Depreciation is calculated to amortise the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives. The useful lives are based on our experience with similar assets and taking into account anticipated technological changes. Both the useful life of an asset and its residual value, if any, are reviewed annually. Changes in circumstances, such as technological advances or changes to our business operations, can result in differences between the actual and estimated useful lives of an asset. In those cases where we determine that the useful life of a long-lived asset should be shortened, we increase the depreciation expense over the remaining useful life to depreciate the asset's net book value to its salvage value. We also amortise our intangible assets (other than goodwill) using the straight-line method over their useful economic life.

Inventories

We measure inventories at the lower of cost and net realisable value. The cost of inventories is determined on the first-in first-out-basis, and in case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate portion of the production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

We regularly review our inventories for slow moving inventory, obsolescence or declines in market value. These reviews are conducted with reference to projections of expected future saleability of goods and management experience and judgment. If our estimate of net realisable value is below the cost of inventory, we establish a provision against the inventories for the difference between cost and net realisable value, which will be charged to the income statement and hence result in a corresponding decrease in our profits. If actual market conditions are less favorable than those projected by management and our inventories remain unsold longer than we anticipated, an additional inventory provision may be required.

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value at the end of the reporting period. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gains or losses arising from changes in fair value of derivatives are taken directly to the income statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

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DESCRIPTION OF CERTAIN INCOME STATEMENTS ITEMS

Revenue

Our revenue represents the sales value of goods sold less returns, discounts and value added taxes and other sales taxes.

The following table sets out our revenue for the periods indicated:

	Year ended 30 June			Ten months ended 30 April	
	2007	2008	2009	2009	2010
	HK\$ ('000)	HK\$ ('000)	HK\$ ('000)	HK\$ ('000) (unaudited)	HK\$ ('000)
Revenue	<u>130,913</u>	<u>252,814</u>	<u>374,593</u>	<u>298,037</u>	<u>509,235</u>

The following table sets out our revenue through distributors and retailers for the periods indicated:

	Year ended 30 June						Ten months ended 30 April			
	2007		2008		2009		2009		2010	
	HK\$ ('000)	% of total revenue	HK\$ ('000)	% of total revenue	HK\$ ('000)	% of total revenue	HK\$ ('000) (unaudited)	% of total revenue	HK\$ ('000)	% of total revenue
Revenue										
Distributors . . .	90,671	69.3	181,561	71.8	311,330	83.1	245,406	82.3	473,198	92.9
Retailers	<u>40,242</u>	<u>30.7</u>	<u>71,253</u>	<u>28.2</u>	<u>63,263</u>	<u>16.9</u>	<u>52,631</u>	<u>17.7</u>	<u>36,037</u>	<u>7.1</u>
Total	<u>130,913</u>	<u>100.0</u>	<u>252,814</u>	<u>100.0</u>	<u>374,593</u>	<u>100.0</u>	<u>298,037</u>	<u>100.0</u>	<u>509,235</u>	<u>100.0</u>

We derive the majority of our revenue from our distributors, and to a lesser extent, from our retailers. For the three years ended 30 June 2007, 2008 and 2009 and the ten months ended 30 April 2009 and 2010, our revenue derived through our distributors was HK\$90.7 million, HK\$181.6 million, HK\$311.3 million, HK\$245.4 million and HK\$473.2 million or 69.3%, 71.8%, 83.1%, 82.3% and 92.9%, respectively of our total revenue. Selling products through our distributors allows us to take advantage of their knowledge of the local distribution network, utilise their distribution capability, reduce our logistics and warehousing costs and improve our working capital position. We plan to continue to sell and distribute our products mainly through our distributors, particularly in the second and third tier cities in the PRC.

We derived the remainder of our revenue from sales to retailers. The profit margins derived from sales to retailers are generally higher due to our ability to command higher selling prices by reducing intermediate distributors.

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Going forward, we plan to continue our selling efforts in the sales to our distributors to take advantage of their distribution network in order to expand our overall consumer base more effectively and efficiently and minimise our warehousing and logistics costs.

The following table sets out our revenue by product categories for the periods indicated:

	Year ended 30 June						Ten months ended 30 April			
	2007		2008		2009		2009		2010	
	HK\$ ('000)	% of total revenue	HK\$ ('000)	% of total revenue	HK\$ ('000)	% of total revenue	HK\$ ('000)	% of total revenue	HK\$ ('000)	% of total revenue
Revenue										
Peel-off facial mask products	121,623	92.9	215,272	85.2	295,906	79.0	226,923	76.2	450,527	88.5
Wash-off facial mask products	8,588	6.6	36,669	14.5	77,762	20.8	70,406	23.6	57,915	11.3
Other skincare products	702	0.5	873	0.3	925	0.2	708	0.2	793	0.2
Total	<u>130,913</u>	<u>100.0</u>	<u>252,814</u>	<u>100.0</u>	<u>374,593</u>	<u>100.0</u>	<u>298,037</u>	<u>100.0</u>	<u>509,235</u>	<u>100.0</u>

Our peel-off facial mask products and wash-off mask products constituted the two major components of our revenue and they together accounted for 99.5%, 99.7%, 99.8%, 99.8% and 99.8% of our revenue for the three years ended 30 June 2007, 2008 and 2009 and the ten months ended 30 April 2009 and 2010.

Cost of sales

Our cost of sales primarily consists of raw materials, packaging materials and manufacturing overhead. Manufacturing overhead costs primarily represent local taxes, wages and welfare, depreciation of plant and machinery, utilities, operating lease expenses, processing fees to GZCCL and other miscellaneous production costs.

The following table sets out our cost of sales for the periods indicated:

	Year ended 30 June			Ten months ended 30 April	
	2007	2008	2009	2009	2010
	HK\$ ('000)	HK\$ ('000)	HK\$ ('000)	HK\$ ('000)	HK\$ ('000)
Cost of sales	<u>31,690</u>	<u>62,274</u>	<u>104,939</u>	<u>76,913</u>	<u>117,780</u>

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The following table sets out our cost of sales by product categories for the periods indicated:

	Year ended 30 June						Ten months ended 30 April			
	2007		2008		2009		2009		2010	
	HK\$ ('000)	% of total cost of sales	HK\$ ('000)	% of total cost of sales	HK\$ ('000)	% of total cost of sales	HK\$ ('000)	% of total cost of sales	HK\$ ('000)	% of total cost of sales
Cost of sales										
Peel-off facial mask products	30,056	94.8	55,106	88.4	88,429	84.3	63,531	82.6	106,450	90.4
Wash-off facial mask products	1,528	4.8	6,516	10.5	15,863	15.1	12,885	16.8	10,950	9.3
Other skincare products	106	0.4	652	1.1	647	0.6	497	0.6	380	0.3
Total	31,690	100.0	62,274	100.0	104,939	100.0	76,913	100.0	117,780	100.0

The following table sets out our cost of sales by production cost for the periods indicated:

	Year ended 30 June						Ten months ended 30 April			
	2007		2008		2009		2009		2010	
	HK\$ ('000)	% of total cost of sales	HK\$ ('000)	% of total cost of sales	HK\$ ('000)	% of total cost of sales	HK\$ ('000)	% of total cost of sales	HK\$ ('000)	% of total cost of sales
Cost of sales										
Raw materials	14,777	46.6	29,693	47.7	49,544	47.2	36,079	46.9	51,209	43.5
Packaging materials	14,243	45.0	25,886	41.6	45,642	43.5	31,957	41.6	54,051	45.9
Manufacturing overhead	2,670	8.4	6,695	10.7	9,753	9.3	8,877	11.5	12,520	10.6
Total	31,690	100.0	62,274	100.0	104,939	100.0	76,913	100.0	117,780	100.0

We experienced significant increase in cost of sales primarily due to increased sales and production volume during the Track Record Period. For the three years ended 30 June 2007, 2008 and 2009 and the ten months ended 30 April 2009 and 2010, our cost of sales was HK\$31.7 million, HK\$62.3 million, HK\$104.9 million, HK\$76.9 million and HK\$117.8 million, representing 24.2%, 24.6%, 28.0%, 25.8% and 23.1%, respectively, of our revenue.

The costs of raw materials and packaging materials constituted the two biggest components of total cost of sales and they together accounted for 91.6%, 89.3%, 90.7%, 88.5% and 89.4% of the total costs of sales for the three years ended 30 June 2007, 2008 and 2009 and the ten months ended 30 April 2009 and 2010, respectively.

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Gross profit and gross profit margin

The following tables set out our total gross profit and gross profit margin for the periods indicated:

	Year ended 30 June			Ten months ended 30 April	
	2007	2008	2009	2009	2010
	HK\$ ('000)	HK\$ ('000)	HK\$ ('000)	HK\$ ('000)	HK\$ ('000)
				(unaudited)	
Gross profit	<u>99,223</u>	<u>190,540</u>	<u>269,654</u>	<u>221,124</u>	<u>391,455</u>

	Year ended 30 June			Ten months ended 30 April	
	2007	2008	2009	2009	2010
	%	%	%	%	%
				(unaudited)	
Gross profit margin	<u>75.8</u>	<u>75.4</u>	<u>72.0</u>	<u>74.2</u>	<u>76.9</u>

The following tables set out our total gross profit and gross profit margin by product categories for the periods indicated:

	Year ended 30 June			Ten months ended 30 April	
	2007	2008	2009	2009	2010
	HK\$ ('000)	HK\$ ('000)	HK\$ ('000)	HK\$ ('000)	HK\$ ('000)
				(unaudited)	
Gross profit					
Peel-off facial mask products	91,567	160,166	207,477	163,392	344,077
Wash-off facial mask products . . .	7,060	30,153	61,899	57,521	46,965
Other skincare products	<u>596</u>	<u>221</u>	<u>278</u>	<u>211</u>	<u>413</u>
Total	<u>99,223</u>	<u>190,540</u>	<u>269,654</u>	<u>221,124</u>	<u>391,455</u>

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	Year ended 30 June			Ten months ended 30 April	
	2007	2008	2009	2009	2010
	%	%	%	% (unaudited)	%
Gross profit margin					
Peel-off facial mask products	75.3	74.4	70.1	72.0	76.4
Wash-off facial mask products . . .	82.2	82.2	79.6	81.7	81.1
Other skincare products	84.9	25.3	30.1	29.8	52.1
Overall	<u>75.8</u>	<u>75.4</u>	<u>72.0</u>	<u>74.2</u>	<u>76.9</u>

The profit margins for our wash-off facial mask products are generally higher as wash-off facial mask products generally command higher selling prices. Notwithstanding this, changes to our product mix can be due to various reasons such as a change in our promotional efforts for certain products, the launching of new product series, or a change in consumer demand for certain products.

Other income and gains

Other income and gains primarily consists of interest income, government subsidies, gain on disposal of a subsidiary and others. The government subsidies were provided by the local government body in Hainan, PRC to Hainan Yangpu as an incentive for conducting business in the Hainan Economic Development Zone (海南經濟開發區) in Hainan, PRC. There are no continuing obligations or requirements for us or conditions in relation to the government subsidies. As we disposed Hainan Yangpu to an Independent Third Party in January 2010, we do not expect to receive any such government subsidies in the future.

Selling and distribution costs

Selling and distribution costs primarily consist of sales and promotional expenses, commission paid to our salespersons, salaries for our sales representatives and sales and marketing staff and other selling and distribution expenses.

Sales and promotional expenses include fees paid for in-store marketing and promotional activities, advertising in magazines and public transport, television commercials and roadshows, as well as fees paid to design and develop new products and improve existing products. Other selling and distribution expenses include travelling expenses and entertainment expenses for our sales representatives and sales and marketing staff, transportation costs and warehousing costs.

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The following table sets out the components of our selling and distribution costs and as a percentage of revenue for the periods indicated:

	Year ended 30 June						Ten months ended 30 April			
	2007		2008		2009		2009		2010	
	HK\$ ('000)	% of total revenue	HK\$ ('000)	% of total revenue	HK\$ ('000)	% of total revenue	HK\$ ('000)	% of total revenue	HK\$ ('000)	% of total revenue
Selling and distribution costs										
Sales and promotional expenses	40,892	31.2	93,990	37.2	126,717	33.8	112,545	37.8	206,282	40.5
Commission paid.	6,747	5.2	8,254	3.3	19,324	5.2	14,005	4.7	17,746	3.5
Salaries	3,560	2.7	17,422	6.9	21,161	5.6	17,766	6.0	32,206	6.3
Other selling and distribution expenses	6,120	4.7	5,842	2.3	8,119	2.2	6,907	2.3	7,762	1.5
Total	57,319	43.8	125,508	49.7	175,321	46.8	151,223	50.7	263,996	51.8

Administrative expenses

Administrative expenses primarily consist of rental and management fees, salary and welfare expenses for management and administrative staff, office expenses, travelling and entertainment expenses for management and administrative staff and miscellaneous expenses arising from our operations, which include depreciation of our production facility, amortisation of intangible assets, bank charges, legal and professional fees and administrative costs associated with engaging the Independent Third Party employment agency.

The following table sets out the components of our administrative expenses and as a percentage of revenue for the periods indicated:

	Year ended 30 June						Ten months ended 30 April			
	2007		2008		2009		2009		2010	
	HK\$ ('000)	% of total revenue	HK\$ ('000)	% of total revenue	HK\$ ('000)	% of total revenue	HK\$ ('000)	% of total revenue	HK\$ ('000)	% of total revenue
Administrative expenses										
Rental and management fees	477	0.4	638	0.3	1,335	0.4	1,005	0.3	895	0.2
Salaries and staff welfare	2,823	2.2	5,439	2.2	6,779	1.8	5,796	1.9	14,645	2.9
Office expenses	351	0.3	819	0.3	627	0.2	652	0.2	1,730	0.3
Travelling	320	0.2	622	0.2	1,026	0.3	858	0.3	973	0.2
Entertainment	453	0.3	697	0.3	676	0.2	595	0.2	618	0.1
Miscellaneous expenses	3,053	2.3	2,305	0.9	3,141	0.8	2,160	0.7	3,627	0.7
Total	7,477	5.7	10,520	4.2	13,584	3.6	11,066	3.7	22,488	4.4

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Finance costs

Our finance costs represent interest expenses on bank borrowings.

Fair value gain on derivative financial instruments

Our fair value gain on derivative financial instruments represents the fair value changes of the derivatives associated with the investments made by the First Strategic Investors. Please refer to section 36 of the accountants' report in Appendix I to this prospectus for a more detailed discussion on our derivative financial instruments.

Income tax expense

Income tax expense represents the amounts of income tax we pay in China. We were not subject to Hong Kong profits tax or any income tax in the Cayman Islands, the BVI and Korea during the Track Record Period.

Before the Enterprise Income Tax Law (企業所得稅法) in the PRC came into effect on 1 January 2008, enterprises incorporated in the PRC were normally subject to enterprise income tax at 33%. Certain enterprises enjoyed preferential income tax rates lower than 33%. Enterprises incorporated as foreign investment production enterprises were exempted from enterprise income tax in the first and second profit-making years and enjoyed a 50% reduction in income tax liability from the third to fifth profit-making years, commencing from the first profit-making year after offsetting any tax losses incurred in prior years, if any.

On 16 March 2007, the National People's Congress of China promulgated the new Enterprise Income Tax Law (企業所得稅法) which came into effect on 1 January 2008. Under the new Enterprise Income Tax Law (企業所得稅法), the enterprise income tax for both domestic and foreign investment enterprises was unified at 25%. However, there is a transition period for enterprises that currently receive preferential tax treatment granted by relevant tax authorities. Enterprises that were subject to an income tax rate lower than 25% may continue to enjoy the lower rate and gradually transfer to the new rate within five years after the effective date of the new law. Enterprises that were currently entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires.

The applicable tax rate for MG Cosmetics for the year ended 30 June 2007 was 33%. On 25 April, 2007, MG Cosmetics changed its business type from a domestic owned enterprise to a wholly foreign owned enterprise and was granted a two-year tax holiday with effect from 1 January 2008. Pursuant to the rules under the new Enterprise Income Tax Law (企業所得稅法), MG Cosmetics would be subject to a 12.5% tax rate for the three years ending 31 December 2012 and the standard applicable rate of 25% thereafter. The applicable tax rate for Guangdong Qunhe was 33% for the year ended 30 June 2007. Following the promulgation of the new Enterprise Income Tax Law (企業所得稅法), Guangdong Qunhe, a domestic enterprise, was immediately transitioned to the standard applicable tax rate of 25%. Similarly, Donglisheng, a domestic enterprise, has also been subject to the standard applicable tax rate of 25% since it was acquired by us in February 2008. Please refer to section 12 of the accountants' report in Appendix I to this prospectus for a more detailed discussion on our income tax expense.

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The clearance letters issued by the relevant PRC tax authorities state that each of our operating PRC subsidiaries has complied with the PRC tax rules and regulations since its establishment. Our PRC legal adviser has confirmed that these authorities are the proper authorities to issue such clearance letters.

RESULTS OF OPERATIONS

Our combined income statements for the three years ended 30 June 2007, 2008 and 2009 and the ten months ended 30 April 2009 and 2010 as set out below are derived from our combined financial statements included in Appendix I to this prospectus. Financial information related to the ten months ended 30 April 2009 is derived from unaudited financial statements that have been reviewed by our reporting accountants.

	Year ended 30 June			Ten months ended 30 April	
	2007	2008	2009	2009	2010
	HK\$ ('000)	HK\$ ('000)	HK\$ ('000)	HK\$ ('000) (unaudited)	HK\$ ('000)
Revenue	130,913	252,814	374,593	298,037	509,235
Cost of sales	(31,690)	(62,274)	(104,939)	(76,913)	(117,780)
Gross profit	99,223	190,540	269,654	221,124	391,455
Other income and gains	1,175	3,543	1,704	1,701	1,825
Selling and distribution costs	(57,319)	(125,508)	(175,321)	(151,223)	(263,996)
Administrative expenses	(7,477)	(10,520)	(13,584)	(11,066)	(22,488)
Fair value gain on derivative financial instruments	—	—	—	—	14,063
Finance costs	—	(177)	(142)	(127)	(48)
Profit before tax	35,602	57,878	82,311	60,409	120,811
Income tax expense	(13,999)	(23,790)	(16,083)	(11,750)	(19,052)
Profit for the year/period	<u>21,603</u>	<u>34,088</u>	<u>66,228</u>	<u>48,659</u>	<u>101,759</u>
Profit attributable to:					
Equity holders of the Company . . .	14,182	24,617	67,618	49,815	102,742
Non-controlling interests	7,421	9,471	(1,390)	(1,156)	(983)
	<u>21,603</u>	<u>34,088</u>	<u>66,228</u>	<u>48,659</u>	<u>101,759</u>

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PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Ten months ended 30 April 2010 compared to ten months ended 30 April 2009

Revenue

Our revenue increased by approximately 70.9% from HK\$298.0 million for the ten months ended 30 April 2009 to HK\$509.2 million for the ten months ended 30 April 2010, primarily as a result of increased sales. Our increased sales was mainly attributable to the expansion of our distribution and retail network in China and the opening of new points of sale in China as we increased the number of our distributors. Our increased sales was also attributable to the increased sales of more advanced facial mask products that have higher average unit prices, including the 漢草理膚 (“Chinese Herbal Skincare”) peel-off facial mask series introduced in June 2009 and 泉 (“Spring”) and 流金絲語 (“Flowing Golden Words”) peel-off facial mask series introduced during the period, increased marketing efforts and greater consumer demand for facial mask products in China. Revenue from our peel-off facial mask products as a percentage of our overall revenue increased from 76.2% to 88.5%, primarily as a result of our strategic decision to expend more resources to promote the three new peel-off facial mask series introduced since June 2009.

Cost of sales

Our cost of sales increased by approximately 53.1% from HK\$76.9 million for the ten months ended 30 April 2009 to HK\$117.8 million for the ten months ended 30 April 2010, primarily as a result of an increase in volume of production as a result of increased sales. The increase in cost of sales was also attributable to increased purchases of more expensive mixture of chemicals used in our essence ingredients and more expensive packaging materials for our more advanced facial mask products introduced during the period. This resulted in an increase of approximately 41.9% in the cost of raw materials and approximately 69.1% in the cost of packaging materials.

Gross profit and gross profit margin

Gross profit increased by approximately 77.0% from HK\$221.1 million for the ten months ended 30 April 2009 to HK\$391.5 million for the ten months ended 30 April 2010, primarily as a result of an increase in the sales of our products during this period. Our gross profit margin increased from 74.2% for the ten months ended 30 April 2009 to 76.9% for the ten months ended 30 April 2010, primarily as a result of the higher average unit prices of facial mask products introduced during the period.

Other income and gains

Other income and gains increased by approximately 7.3% from HK\$1.7 million for the ten months ended 30 April 2009 to HK\$1.8 million for the ten months ended 30 April 2010, primarily as a result of the gain arising from the disposal of Hainan Yangpu in January 2010 in the amount of HK\$1.4 million, offset by the lack of government subsidies received during the period as we ceased our business operation in Hainan, PRC in October 2008.

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Selling and distribution costs

Selling and distribution costs increased by approximately 74.6% from HK\$151.2 million for the ten months ended 30 April 2009 to HK\$264.0 million for the ten months ended 30 April 2010, primarily as a result of an increase in sales and promotional expenses relating to increased expenditure on in-store marketing and promotional activities and other marketing and promotional activities from HK\$112.5 million to HK\$206.3 million as we expanded our points of sale in China and continued to increase our overall marketing efforts, and in particular, on the new 漢草理膚 (“Chinese Herbal Skincare”) peel-off facial mask series introduced in June 2009 and 泉 (“Spring”) and 流金絲語 (“Flowing Golden Words”) peel-off facial mask series introduced during the period. The increase in selling and distribution costs was also attributable to an increase in salaries for our sales representatives and sales and marketing staff as we increased the number of our sales representatives and sales and marketing staff as we expanded our points of sale in China.

Administrative expenses

Administrative expenses increased by approximately 103.2% from HK\$11.1 million for the ten months ended 30 April 2009 to HK\$22.5 million for the ten months ended 30 April 2010, primarily as a result of an increase in salaries and staff welfare for our management and administrative staff from HK\$5.8 million to HK\$14.6 million primarily due to the share award expenses of HK\$8.5 million following the adoption of the Share Award Plan on 30 October 2009.

Finance costs

Finance costs decreased by approximately 62.2% from HK\$127,000 for the ten months ended 30 April 2009 to HK\$48,000 for the ten months ended 30 April 2010, primarily as a result of the disposal of the staff quarter to Mr. She and the release of the mortgage loan for the property.

Fair value gain on derivative financial instruments

Fair value gain on derivative financial instruments was HK\$14.1 million for the ten months ended 30 April 2010 as a result of the fair value changes of the derivatives associated with the investments made by the First Strategic Investors in November 2009.

Profit before tax

Profit before tax increased by approximately 100.0% from HK\$60.4 million for the ten months ended 30 April 2009 to HK\$120.8 million for the ten months ended 30 April 2010, primarily as a result of the factors described above.

Income tax expense

Income tax expense increased by approximately 62.1% from HK\$11.8 million for the ten months ended 30 April 2009 to HK\$19.1 million for the ten months ended 30 April 2010. Our effective tax rate decreased from 19.5% for the ten months ended 30 April 2009 to 15.8% for the ten months ended 30 April 2010. The increase in tax expense was primarily as a result of an increase in profit before tax. The

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decrease in effective tax rate was primarily as a result of the deduction of sales and promotional expenses unutilised and carried forward from the previous year pursuant to the new Enterprise Income Tax Law (企業所得稅法) and the non-taxable tax effect of the fair value gain on derivative financial instruments. Going forward, our effective tax rate may increase as a result of the expiry of the two-year tax holiday for MG Cosmetics on 31 December 2009 and the imposition of a cap on the amount of sales and promotional expenses that may be deductible under the new Enterprise Income Tax Law (企業所得稅法). Such non-deductible expenses may however be carried forward for deduction in the future. In the event that our effective tax rate increases in the future, our net profit margin may decrease.

Profit attributable to non-controlling interests

Our loss attributable to non-controlling interests decreased by approximately 15.0% from HK\$1.2 million for the ten months ended 30 April 2009 to HK\$1.0 million for the ten months ended 30 April 2010, primarily due to losses attributable by Donglisheng primarily as a result of the amortisation of intangible assets of Donglisheng.

Profit attributable to equity holders of the Company

Due to the factors described above, our profit attributable to equity holders of the Company increased by approximately 106.2% from HK\$49.8 million for the ten months ended 30 April 2009 to HK\$102.7 million for the ten months ended 30 April 2010.

Year ended 30 June 2009 compared to year ended 30 June 2008

Revenue

Our revenue increased by approximately 48.2% from HK\$252.8 million for the year ended 30 June 2008 to HK\$374.6 million for the year ended 30 June 2009, primarily as a result of increased sales. Our increased sales was mainly attributable to the expansion of our distribution and retail network in China and the opening of new points of sale in China as we increased the number of our distributors from 32 as of 30 June 2008 to 59 as of 30 June 2009. Our increased sales was also attributable to the increased marketing efforts and greater consumer demand for facial mask products in China. Revenue from our wash-off facial mask products as a percentage of our overall revenue increased from 14.5% to 20.8%, primarily as a result of the continued increase in consumer acceptance of our wash-off facial mask products.

Cost of sales

Our cost of sales increased by approximately 68.5% from HK\$62.3 million for the year ended 30 June 2008 to HK\$104.9 million for the year ended 30 June 2009, primarily as a result of an increase in volume of production as a result of increased sales. The increase in cost of sales was also attributable to increased purchases of more expensive packaging materials for products introduced during the period. This resulted in an increase of approximately 66.9% in the cost of raw materials and approximately 76.3% in the cost of packaging materials.

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Gross profit and gross profit margin

Gross profit increased by approximately 41.5% from HK\$190.5 million for the year ended 30 June 2008 to HK\$269.7 million for the year ended 30 June 2009, primarily as a result of an increase in the sales of our products during this period. Our gross profit margin decreased from approximately 75.4% for the year ended 30 June 2008 to approximately 72.0% for the year ended 30 June 2009, primarily as a result of the increased sales of bundled packages with complimentary products to consumers as part of our marketing strategies during this period and the one-off trade discount of an aggregate of HK\$24.0 million offered to two of our distributors as reimbursements for their payment of promotional expenses of the same amount incurred for our benefits as these two distributors rapidly expanded their distribution network during the period. We do not intend to offer any trade discount to our distributors going forward.

Other income and gains

Other income and gains decreased by approximately 51.9% from HK\$3.5 million for the year ended 30 June 2008 to HK\$1.7 million for the year ended 30 June 2009, primarily as a result of a decline in the government subsidies received by us from HK\$3.2 million to HK\$1.7 million as we ceased our business operation in Hainan, PRC in October 2008.

Selling and distribution costs

Selling and distribution costs increased by approximately 39.7% from HK\$125.5 million for the year ended 30 June 2008 to HK\$175.3 million for the year ended 30 June 2009, primarily as a result of an increase in sales and promotional expenses relating to increased expenditure on in-store marketing and promotional activities and other marketing and promotional activities from HK\$94.0 million to HK\$126.7 million as we expanded our points of sale in China and continued to increase our overall marketing efforts. The increase in selling and distribution costs was also attributable to an increase in commission paid to our salespersons primarily due to the fact that commission in the amount of HK\$2.0 million in relation to the year ended 30 June 2008 was only paid in the year ended 30 June 2009 and the increase in the number of salespersons as we expanded our points of sale in China. We did not make accruals for the payment of commission in the relevant period as we considered various pre-agreed criteria (including the then economic situation) before determining the amount of commission payable to our salespersons for the year ended 30 June 2008.

Administrative expenses

Administrative expenses increased by approximately 29.1% from HK\$10.5 million for the year ended 30 June 2008 to HK\$13.6 million for the year ended 30 June 2009, primarily as a result of an increase in salaries and staff welfare for our management and administrative staff from HK\$5.4 million to HK\$6.8 million due to expansion of our team as our operation grew and an increase in miscellaneous expenses from HK\$2.3 million to HK\$3.1 million.

Finance costs

Finance costs decreased by approximately 19.8% from HK\$0.2 million for the year ended 30 June 2008 to HK\$0.1 million for the year ended 30 June 2009, primarily as a result of a decline in interest rate.

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Profit before tax

Profit before tax increased by approximately 42.2% from HK\$57.9 million for the year ended 30 June 2008 to HK\$82.3 million for the year ended 30 June 2009, primarily as a result of the factors described above.

Income tax expense

Income tax expense decreased by approximately 32.4% from HK\$23.8 million for the year ended 30 June 2008 to HK\$16.1 million for the year ended 30 June 2009. Our effective tax rate decreased from 41.1% for the year ended 30 June 2008 to 19.5% for the year ended 30 June 2009. The decrease in tax expense and effective tax rate were primarily due to the lower applicable tax rate for the PRC subsidiaries under the new Enterprise Income Tax Law (企業所得稅法) which came into effect on 1 January 2008 and the deduction of HK\$24.2 million of sales and promotional expenses unutilised and carried forward from the previous year pursuant to the new Enterprise Income Tax Law (企業所得稅法). We did not recognise any deferred tax as of 30 June 2008 as we were not certain whether it was probable that such expenses carried forward could be utilised in the near future.

Profit attributable to non-controlling interests

Our profit attributable to non-controlling interests decreased by approximately 114.7% from HK\$9.5 million for the year ended 30 June 2008 to a loss of HK\$1.4 million for the year ended 30 June 2009, primarily due to the fact the Guangdong Qunhe and Hainan Yangpu which were profit making became our wholly-owned subsidiaries during the year ended 30 June 2009, and losses attributable by Donglisheng primarily as a result of the amortisation of intangible assets of Donglisheng.

Profit attributable to equity holders of the Company

Due to the factors described above, our profit attributable to equity holders of the Company increased by approximately 174.7% from HK\$24.6 million for the year ended 30 June 2008 to HK\$67.6 million for the year ended 30 June 2009.

Year ended 30 June 2008 compared to year ended 30 June 2007

Revenue

Our revenue increased by approximately 93.1% from HK\$130.9 million for the year ended 30 June 2007 to HK\$252.8 million for the year ended 30 June 2008, primarily as a result of increased sales. Our increased sales was mainly attributable to the expansion of our distribution and retail network in China and the opening of new points of sale in China as we increased the number of our distributors from 24 as of 30 June 2007 to 32 as of 30 June 2008. Our increased sales was also attributable to the increased sales of more advanced facial mask products that have higher average unit prices, including the TU peel-off facial mask series and the DIY and cream wash-off facial mask series and products introduced during the period, increased marketing efforts and greater consumer demand for facial mask products in

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China. Revenue from our wash-off facial mask products as a percentage of our overall revenue increased from 6.6% to 14.5%, primarily as a result of the continued increase in consumer acceptance of our wash-off facial mask products and the new DIY and cream wash-off facial mask series and products introduced during the period.

Cost of sales

Our cost of sales increased by approximately 96.5% from HK\$31.7 million for the year ended 30 June 2007 to HK\$62.3 million for the year ended 30 June 2008, primarily as a result of an increase in volume of production as a result of increased sales. The increase in cost of sales was also attributable to increased purchases of more expensive mixture of chemicals used in our essence ingredients and more expensive packaging materials for our more advanced facial mask products introduced during the period. This has resulted in an increase of approximately 100.9% in the cost of raw materials and approximately 81.7% in the cost of packaging materials.

Gross profit and gross profit margin

Gross profit increased by approximately 92.0% from HK\$99.2 million for the year ended 30 June 2007 to HK\$190.5 million for the year ended 30 June 2008, primarily as a result of an increase in the sales of our products during this period. Our gross profit margin remained relatively stable and only decreased slightly from 75.8% for the year ended 30 June 2007 to 75.4% for the year ended 30 June 2008.

Other income and gains

Other income and gains increased by approximately 201.5% from HK\$1.2 million for the year ended 30 June 2007 to HK\$3.5 million for the year ended 30 June 2008, primarily as a result of an increase in government subsidies received by us from HK\$1.1 million to HK\$3.2 million.

Selling and distribution costs

Selling and distribution costs increased by approximately 119.0% from HK\$57.3 million for the year ended 30 June 2007 to HK\$125.5 million for the year ended 30 June 2008, primarily as a result of an increase in sales and promotional expenditures relating to increased expenditure on in-store marketing and promotional activities and other marketing and promotional activities from HK\$40.9 million for the year ended 30 June 2007 to HK\$94.0 million for the year ended 30 June 2008 as we expanded our points of sale in China and continued to increase our overall marketing efforts, and in particular, on the new DIY and cream wash-off facial mask series and products introduced during the period. The increase in selling and distribution costs was also attributable to an increase in salaries for our sales representatives and sales and marketing staff as we increased the number of our sales representatives and sales and marketing staff to expand our distribution and retail network and points of sale in China.

Administrative expenses

Administrative expenses increased by approximately 40.7% from HK\$7.5 million for the year ended 30 June 2007 to HK\$10.5 million for the year ended 30 June 2008, primarily as a result of an increase

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in salaries and staff welfare for our management and administrative staff due to expansion of our team as our operation grew, slightly offset by a decrease in miscellaneous expenses which was primarily due to the legal and profession fees incurred in connection with the reorganisation of MG Cosmetics during the year ended 30 June 2007.

Finance costs

We had no bank borrowing for the year ended 30 June 2007. Finance costs were HK\$0.2 million for the year ended 30 June 2008, primarily as a result of interest payment on our bank borrowings.

Profit before tax

Profit before tax increased by approximately 62.6% from HK\$35.6 million for the year ended 30 June 2007 to HK\$57.9 million for the year ended 30 June 2008, primarily as a result of the factors described above.

Income tax expense

Income tax expense increased by approximately 69.9% from HK\$14.0 million for the year ended 30 June 2007 to HK\$23.8 million for the year ended 30 June 2008. Our effective tax rate increased from 39.3% for the year ended 30 June 2007 to 41.1% for the year ended 30 June 2008. The increase in tax expense and effective tax rate were primarily as a result of an increase in profit before tax and the non-deductible tax effect of certain sales and promotional expenses.

Profit attributable to non-controlling interests

Our profit attributable to non-controlling interests increased by approximately 27.6% from HK\$7.4 million for the year ended 30 June 2007 to HK\$9.5 million for the year ended 30 June 2008, primarily due to profit attributable by Guangdong Qunhe and Hainan Yangpu.

Profit attributable to equity holders of the Company

Due to the factors described above, our profit attributable to equity holders of the Company increased by approximately 73.6% from HK\$14.2 million for the year ended 30 June 2007 to HK\$24.6 million for the year ended 30 June 2008.

DISCUSSION OF CERTAIN STATEMENTS OF FINANCIAL POSITION ITEMS

Inventories

Our inventories comprise raw materials and finished goods. As we have a relatively short production lead time, we do not record any work-in-progress in our inventory. The amount of unfinished goods as of 30 June 2007, 2008 and 2009 and 30 April 2010 was immaterial and were recorded as finished goods. The value of our inventories accounted for approximately 2.3%, 1.6%, 2.1% and 2.1% of our total current assets as of 30 June 2007, 2008 and 2009 and 30 April 2010, respectively.

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The following table is a summary of our balance of inventories as of the dates indicated:

	As of 30 June			As of 30 April
	2007	2008	2009	2010
	HK\$ ('000)	HK\$ ('000)	HK\$ ('000)	HK\$ ('000)
Inventories				
Raw materials	689	1,039	711	3,797
Finished goods	<u>1,460</u>	<u>1,909</u>	<u>3,826</u>	<u>3,642</u>
Total.	<u><u>2,149</u></u>	<u><u>2,948</u></u>	<u><u>4,537</u></u>	<u><u>7,439</u></u>

Our inventories increased by approximately 37.2% from HK\$2.1 million as of 30 June 2007 to HK\$2.9 million as of 30 June 2008 primarily due to increased production to meet the growth in demand for our products. Our inventories increased by approximately 53.9% from HK\$2.9 million as of 30 June 2008 to HK\$4.5 million as of 30 June 2009 primarily due to an increase of HK\$1.9 million of finished goods due to greater production to meet the growth in demand for our products and stockpiling of new products to be launched in the third and fourth quarters of 2009. Our inventories increased by approximately 64.0% from HK\$4.5 million as of 30 June 2009 to HK\$7.4 million as of 30 April 2010 primarily due to an increase of HK\$3.1 million of raw materials due to greater production to meet the growth in demand of our products.

We do not have a general provisioning policy for inventories but make assessments on provisions on a case-by-case basis. During the Track Record Period, we did not make any provisions for inventories given that we usually procure the majority of our raw materials and packaging materials and commence production after having confirmed purchase orders with our distributors and retailers.

As of 31 July 2010, approximately HK\$7.2 million of our inventories as of 30 April 2010 of HK\$7.4 million had been consumed or sold.

The following table sets out our average inventory turnover days for the Track Record Period:

	As of 30 June			As of 30 April
	2007	2008	2009	2010
	Average inventory turnover days	19.0	14.9	13.0

Note: Average inventory turnover days is calculated as the average of the beginning and ending inventory balances for the period, divided by the cost of sales for that period, multiplied by 365 days (304 days in the case of ten months ended 30 April 2010).

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The average inventory turnover days decreased from 19.0 days for the year ended 30 June 2007 and have remained relatively stable over the remaining periods of the Track Record Period as we improved our stock management system and usually procure the majority of our raw materials and packaging materials and commence production after having confirmed purchase orders with our distributors and retailers.

Trade receivables

Our trade receivables primarily relate to receivables for goods sold to our distributors and retailers, to which certain terms of credit are offered, in the ordinary course of business.

We generally require our distributors to make payment to us before our products are delivered to them. We may also grant credit term of up to one year for certain amount of facial mask products to our distributors at the beginning of the calendar year on request on a case-by-case basis, depending on their estimated future sales, business scale, funding needs to expand their network and payment history. We require such distributors to settle payment for these products purchased on credit at the end of the calendar year. Once the credit amount is exceeded, no further credit is provided for any subsequent placement from these distributors and we require these distributors to make payment to us before products under any subsequent placement of orders are delivered to them. We review the amount of products that may be delivered to our selected distributors on credit annually at the beginning of each calendar year. The Directors consider that this credit arrangement is not uncommon in the skincare industry in PRC. For the three years ended 30 June 2007, 2008 and 2009 and the ten months ended 30 April 2009 and 2010, 20, 26, 58, 48 and 60 of our distributors, respectively, were granted credit for certain amount of facial mask products from us. The amount of credit granted to our distributors represents approximately 7.0%, 16.0%, 18.0%, 21.8% and 21.1%, respectively of our revenue for the same periods.

We generally offer a credit term of 45 to 60 days to our retailers based on the size of their retail outlets, sales performance, credit history and estimated future purchases.

The following table sets out the aging analysis of our trade receivables as of the dates indicated:

	As of 30 June			As of 30 April
	2007	2008	2009	2010
	HK\$ ('000)	HK\$ ('000)	HK\$ ('000)	HK\$ ('000)
Aging analysis of trade receivables				
Within 90 days	14,446	35,128	37,384	103,233
91 to 180 days	—	16,474	57,213	1,843
181 to 365 days	—	—	267	175
Total	14,446	51,602	94,864	105,251

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Our trade receivables increased by approximately 257.2% from HK\$14.4 million as of 30 June 2007 to HK\$51.6 million as of 30 June 2008, by approximately 83.8% from HK\$51.6 million as of 30 June 2008 to HK\$94.9 million as of 30 June 2009, and by approximately 10.9% from HK\$94.9 million as of 30 June 2009 to HK\$105.3 million as of 30 April 2010. The increases were primarily due to our increased sales and further expansion of our distribution and retail network and points of sale in China. Our trade receivables generally grew at a faster rate than our revenue during the same period primarily due to our increased sales to distributors who were granted credit term of up to one year for certain amount of facial mask products at the beginning of the year and the increase in such credit amount. The increase in trade receivables that were due within 90 days as of 30 April 2010 was primarily related to the receivables for products that were sold to distributors at the beginning of the year on credit. As of 30 April 2010, the amount of credit granted to our distributors and included in our balance of trade receivables of HK\$105.3 million was approximately HK\$101.3 million. As of 31 July 2010, approximately HK\$4.0 million of our trade receivables as of 30 April 2010 of HK\$105.3 million had been settled.

During the Track Record Period, we did not make any impairment allowance for trade receivables. We also do not hold any collateral or other credit enhancements in respect of our trade receivables.

The following table sets out our average trade receivables turnover days for the Track Record Period:

	As of 30 June			As of 30 April
	2007	2008	2009	2010
Average trade receivables turnover days . .	38.9	47.7	71.4	59.8

Note: Average trade receivables turnover days is calculated as average of the beginning and ending net trade receivable balances for the period, divided by revenue for the period, multiplied by 365 days (304 days in the case of ten months ended 30 April 2010).

The average trade receivables turnover days increased during the Track Record Period, primarily due to increased sales to distributors who were granted credit term of up to one year for certain amount of facial mask products at the beginning of the year and the increase in such credit amounts. As the consumer demand for our products grew substantially during the same period, more distributors approached us and requested for products to be delivered to them on credit. The increase in average trade receivables turnover days to 71.4 days for the year ended 30 June 2009 was also due to its calculation, as the amount of revenue used as the denominator has been partly offset by the one-off trade discount of an aggregate of HK\$24.0 million offered to two of our distributors during that year. The average trade receivables turnover days decreased to 59.8 days for the ten months ended 30 April 2010, primarily due to its calculation, as we generally review the amount of products that may be delivered to our distributors on credit annually at the beginning of the year, while our revenue continued to increase during that ten month period.

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Prepayments, deposits and other receivables

Our prepayments, deposits and other receivables primarily consist of prepaid sales and promotional expenses, prepayments and deposits and other receivables.

The following table is a summary of our balance of prepayments, deposits and other receivables as of the dates indicated:

	As of 30 June			As of 30 April
	2007	2008	2009	2010
	HK\$('000)	HK\$('000)	HK\$('000)	HK\$('000)
Prepayments	2	288	147	2,286
Prepaid sale and promotional expenses . .	48,967	67,259	56,468	52,518
Deposits and other receivables	<u>1,054</u>	<u>3,141</u>	<u>1,249</u>	<u>22,039</u>
	<u>50,023</u>	<u>70,688</u>	<u>57,864</u>	<u>76,843</u>

As of 30 June 2007, 2008 and 2009 and 30 April 2010, our prepaid sales and promotional expenses were HK\$49.0 million, HK\$67.3 million, HK\$56.5 million and HK\$52.5 million, respectively as we increased our marketing efforts in line with our business expansion. As of 30 June 2007, 2008 and 2009 and 30 April 2010, our prepayments were HK\$2,000, HK\$0.3 million, HK\$0.1 million and HK\$2.3 million, respectively. As of 30 June 2007, 2008 and 2009 and 30 April 2010, our deposits and other receivables, primarily comprising rental deposits and other prepayments for certain sales and promotional activities, were HK\$1.1 million, HK\$3.1 million, HK\$1.2 million and HK\$22.0 million, respectively. The balance of deposits and other receivables as of 30 April 2010 was also related to a deposit paid for the granting of land use rights in GHIDZ and prepayments of expenses in relation to our listing process.

As of 31 July 2010, approximately HK\$30.5 million of our prepayments, deposits and other receivables as of 30 April 2010 of HK\$76.8 million had been expensed.

Trade payables

Our trade payables primarily relate to purchases of raw materials and packaging materials from our suppliers, with credit terms of 60 to 90 days for our trade payables.

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The following table sets out the aging analysis of our trade payables as of the dates indicated:

	As of 30 June			As of 30 April
	2007	2008	2009	2010
	HK\$ ('000)	HK\$ ('000)	HK\$ ('000)	HK\$ ('000)
Aging analysis of trade payables				
Within 90 days	4,817	8,523	22,481	23,829
Over 90 days	183	189	124	584
Total.	5,000	8,712	22,605	24,413

Our trade payables increased by approximately 74.2% from HK\$5.0 million as of 30 June 2007 to HK\$8.7 million as of 30 June 2008, primarily due to increased purchases of raw materials and packaging materials to meet increased sales. Our trade payables increased by approximately 159.5% from HK\$8.7 million as of 30 June 2008 to HK\$22.6 million as of 30 June 2009, primarily due to increased purchases of raw materials and packaging materials to meet increased sales and increased purchases of more expensive essence ingredients and packaging materials for our more advanced facial mask products. Our trade payables increased by approximately 8.0% from HK\$22.6 million as of 30 June 2009 to HK\$24.4 million as of 30 April 2010, primarily due to increased purchases of raw materials and packaging materials to meet increased sales.

As of 31 July 2010, approximately HK\$23.9 million of our trade payables as of 30 April 2010 of HK\$24.4 million had been settled by us.

The following table sets out our average trade payables turnover days for the Track Record Period:

	As of 30 June			As of 30 April
	2007	2008	2009	2010
	Average trade payables turnover days.	40.3	40.2	54.5

Note: Average trade payables turnover days is calculated as average of the beginning and ending net trade payable balances for the period, divided by cost of sales for the period, multiplied by 365 days (304 days in the case of ten months ended 30 April 2010).

The average trade payables turnover days increased from 40.3 days for the year ended 30 June 2007 to 60.7 days for the ten months ended 30 April 2010, as our business grew substantially and therefore providing us with greater flexibility to negotiate with our suppliers for longer credit terms based on our past good credit history and large purchase volume.

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Other payables and accruals

Other payables and accruals primarily consist of payables for value-added taxes under other payables.

The following table is a summary of our balance of other payables and accruals as of the dates indicated:

	As of 30 June			As of 30 April
	2007	2008	2009	2010
	HK\$('000)	HK\$('000)	HK\$('000)	HK\$('000)
Other payables	2,886	5,716	6,560	9,007
Accruals and other liabilities	560	912	945	6,396
	3,446	6,628	7,505	15,403

Our balance of other payables increased during the Track Record Period primarily due to the increased amount of value-added taxes payable as a result of increased sales.

As of 30 June 2007, 2008 and 2009 and 30 April 2010, our accruals and other liabilities were HK\$0.6 million, HK\$0.9 million, HK\$0.9 million and HK\$6.4 million, respectively. The balance of accruals and other liabilities as of 30 April 2010 was primarily related to provision of expenses in relation to our listing process.

As of 31 July 2010, approximately HK\$14.2 million of other payables and accruals as of 30 April 2010 of HK\$15.4 million had been settled by us.

Amounts due from/to related parties

As of 30 June 2007, 2008 and 2009 and 30 April 2010, amounts due from related parties amounted to HK\$33.1 million, HK\$49.5 million, HK\$49.2 million and HK\$126.6 million, respectively, primarily representing advances made to and amounts paid on behalf of Hua Han and certain of its subsidiaries.

As of 30 June 2007, 2008 and 2009 and 30 April 2010, amounts due to related parties amounted to HK\$54.9 million, HK\$32.9 million, HK\$44.4 million and HK\$31.9 million, respectively, primarily representing advances from and amounts paid on our behalf by Hua Han and certain of its subsidiaries. The decrease in the balance of amounts due to related parties from HK\$54.9 million as of 30 June 2007 to HK\$32.9 million as of 30 June 2008 was primarily due to the capital contribution by Queenherb to Magic Holdings that was settled via the current account during the year ended 30 June 2008. The increase in the balance of amounts due to related parties from HK\$32.9 million as of 30 June 2008 to HK\$44.4 million as of 30 June 2009 primarily relates to dividends declared by Guangdong Qunhe in July

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2008 and the consideration payable by MG Cosmetics for the acquisition of Guangdong Qunhe in December 2008. The decrease in the balance of amounts due to related parties from HK\$44.4 million as of 30 June 2009 to HK\$31.9 million as of 30 April 2010 primarily relates to repayment by us of previous advances from and amounts paid on behalf by the Hua Han Group.

The Directors are of the view that except for the non-recurring transactions with related parties, the transactions with the related parties during the Track Record Period were conducted on normal terms and in the ordinary course of the Group's business. All amounts due from / to related parties were interest-free, unsecured and had no fixed terms of repayment. All the balances with related parties will be settled before Listing.

Derivative financial instruments

Our derivative financial instruments represent the fair value of the derivatives associated with the investments made by the First Strategic Investors. Please refer to section 36 of the accountants' report in Appendix I to this prospectus for a more detailed discussion on our derivative financial instruments. As of 30 June 2007, 2008 and 2009 and 30 April 2010, derivative financial instruments amounted to nil, nil, nil and HK\$8.3 million.

Goodwill and intangible asset

Goodwill in the amount of HK\$14.5 million was recognised by us following our acquisition of 70% equity interest in Donglisheng in February 2008 from two Independent Third Parties at an aggregate consideration of RMB30 million, which was arrived at based on the assessment of the value of Donglisheng by our management having regard to the management's understanding of the brands, products and sales channels and the potentials in the future development of Donglisheng. Further, trade name in the amount of HK\$32.1 million was also recognised by us following the acquisition of Donglisheng. The fair value of the trade name was estimated by our Directors with reference to a valuation by an independent professional valuer using a royalty-relief model with a discount rate of 16% and the royalty rate of 10% and amortised on the straight-line basis over the estimated economic life of nine years. Please also refer to sections 16 and 17 of the accountants' report in Appendix I to this prospectus for further details.

LIQUIDITY AND CAPITAL RESOURCES

Working capital

We have historically met our working capital needs primarily through cash generated from operating activities. After Listing, we expect to meet our working capital needs primarily through cash generated from operating activities and net proceeds of the Global Offering. The Directors are of the opinion that, taking into consideration the financial resources presently available to the Group, including our cash generated from our operating activities and the estimated net proceeds of the Global Offering, the Group has sufficient working capital for its requirements for at least 12 months commencing from the date of this prospectus.

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Our gearing ratio, calculated as total bank loans divided by total equity attributable to equity holders of our Company, as of 30 June 2007, 2008 and 2009 and 30 April 2010 was 6.5%, 1.9%, 1.4% and nil, respectively. The decrease in our gearing ratio during the Track Record Period was primarily due to the increase in our total equity attributable to equity holders of our Company as a result of the capital contribution from the then shareholders of Magic Holdings in the amount of HK\$61.1 million during the year ended 30 June 2008 and the assumption of our bank loan by Mr. She during the ten months ended 30 April 2010. Please refer to section 39(f) of the accountants' report in Appendix I to this prospectus for a more detailed discussion on our gearing ratio.

Net current assets

The following table sets out details of our current assets and current liabilities as of the dates indicated:

	As of 30 June			As of 30 April	As of 31 July
	2007	2008	2009	2010	2010
	HK\$ ('000)	HK\$ ('000)	HK\$ ('000)	HK\$ ('000)	HK\$ ('000) (unaudited)
Current assets					
Inventories	2,149	2,948	4,537	7,439	7,211
Trade receivables	14,446	51,602	94,864	105,251	117,457
Amounts due from related parties	33,103	49,460	49,238	126,634	124,167
Prepayments, deposits and other receivables	33,488	70,688	57,864	63,249	101,949
Cash and cash equivalents	10,694	4,179	7,486	48,509	29,148
	<u>93,880</u>	<u>178,877</u>	<u>213,989</u>	<u>351,082</u>	<u>379,932</u>
Current liabilities					
Trade payables	5,000	8,712	22,605	24,413	28,356
Other payables and accruals	3,446	6,628	7,505	15,403	15,632
Interest-bearing bank loan	117	131	130	—	—
Tax payable	4,555	13,851	13,116	5,086	5,092
Amounts due to related parties . .	54,921	32,916	44,424	31,910	32,271
Derivative financial instruments . . .	—	—	—	8,282	8,282
	<u>68,039</u>	<u>62,238</u>	<u>87,780</u>	<u>85,094</u>	<u>89,633</u>
Net current assets	<u>25,841</u>	<u>116,639</u>	<u>126,209</u>	<u>265,988</u>	<u>290,299</u>

FINANCIAL INFORMATION

Based on our unaudited combined management accounts as of 31 July 2010, we had net current assets of HK\$290.3 million. Our current assets as of 31 July 2010 consisted of inventories of HK\$7.2 million, trade receivables of HK\$117.5 million, amounts due from related parties of HK\$124.2 million, prepayments, deposits and other receivables of HK\$101.9 million, and cash and cash equivalents of HK\$29.1 million. Our current liabilities as of 31 July 2010 consisted of trade payables of HK\$28.3 million, other payables and accruals of HK\$15.6 million, tax payable of HK\$5.1 million, amounts due to related parties of HK\$32.3 million, and derivative financial instruments of HK\$8.3 million.

Cash flows

The following table is a summary of our cash flow data for the periods indicated:

	Year ended 30 June			Ten months ended 30 April	
	2007	2008	2009	2009	2010
	HK\$ ('000)	HK\$ ('000)	HK\$ ('000)	HK\$ ('000)	HK\$ ('000)
Net cash flows from operating activities	18,147	3,448	50,350	71,258	80,956
Net cash flows used in investing activities	(38,599)	(49,199)	(44,209)	(50,014)	(91,502)
Net cash flows from/(used in) financing activities	<u>28,932</u>	<u>39,000</u>	<u>(2,828)</u>	<u>(8,500)</u>	<u>51,569</u>
Net increase/(decrease) in cash and cash equivalents.	8,480	(6,751)	3,313	12,744	41,023
Cash and cash equivalents at the beginning of the year/period . . .	2,102	10,694	4,179	4,179	7,486
Exchange realignment	<u>112</u>	<u>236</u>	<u>(6)</u>	<u>—</u>	<u>—</u>
Cash and cash equivalents at the end of the year/period	<u>10,694</u>	<u>4,179</u>	<u>7,486</u>	<u>16,923</u>	<u>48,509</u>

Cash flow from operating activities

We derive our cash inflow from operating activities principally from the receipt of payments for the sale of our products. Our cash outflow from operating activities is principally for purchases of raw materials and packaging materials and expenses for sales and promotional activities.

In the ten months ended 30 April 2010, we had net cash from operating activities of HK\$81.0 million, which was primarily contributed by profit before tax of HK\$120.8 million and an increase in other payables and accruals of HK\$7.9 million. These cash inflows were partially offset by payment of tax in the PRC of HK\$28.0 million and an increase in trade receivables of HK\$10.4 million. The increase in other payables and accruals was primarily related to provision of expenses in relation to our listing process. The increase in trade receivables was primarily due to our sales growth.

FINANCIAL INFORMATION

In the ten months ended 30 April 2009, we had net cash from operating activities of HK\$71.3 million, which was primarily contributed by profit before tax of HK\$60.4 million and a decrease in prepayments, deposits and other receivables of HK\$26.7 million. These cash inflows were partially offset by an increase in trade receivables of HK\$27.4 million and payment of tax in the PRC of HK\$18.6 million. The decrease in prepayments, deposits and other receivables was primarily due to the prepayments for purchase of materials for in-store product displays being expensed during the period. The increase in trade receivables was primarily due to our sales growth.

In the year ended 30 June 2009, we had net cash from operating activities of HK\$50.4 million, which was primarily contributed by profit before tax of \$82.3 million, an increase in trade payables of HK\$13.9 million and a decrease in prepayments, deposits and other receivables of HK\$12.8 million. These cash inflows were partially offset by an increase in trade receivables of HK\$43.3 million and payment of tax in the PRC of HK\$18.6 million. The increase in trade payables was primarily due to increased purchases of raw materials and packaging materials as a result of an increase in volume of production and increased sales. The decrease in prepayments, deposits and other receivables was primarily due to the prepayments for purchase of materials for in-store product displays being expensed in the year ended 30 June 2009. The increase in trade receivables was primarily due to our sales growth.

In the year ended 30 June 2008, we had net cash from operating activities of HK\$3.4 million, which was primarily contributed by profit before tax of HK\$57.9 million. These cash inflows were partially offset by an increase in trade receivables of HK\$37.2 million, an increase in prepayments, deposits and other receivables of HK\$20.6 million and payment of tax in the PRC of HK\$14.5 million. The increase in trade receivables was primarily due to our sales growth. The increase in prepayments, deposits and other receivables was primarily due to the prepayments for purchase of materials for in-store product displays.

In the year ended 30 June 2007, we had net cash from operating activities of HK\$18.1 million, which was primarily contributed by profit before tax of HK\$35.6 million. These cash inflows were partially offset by an increase in prepayments, deposits and other receivables of HK\$11.0 million and payment of tax in the PRC of HK\$11.1 million. The increase in prepayments, deposits and other receivables was primarily due to prepayments for some of our sales and promotional activities.

Cash flow used in investing activities

Our cash outflow for investing activities is principally for advances made to and amounts paid on behalf of the Hua Han Group.

In the ten months ended 30 April 2010, we had net cash used in investing activities of HK\$91.5 million, which was primarily due to an increase in amounts due from related parties of HK\$77.4 million and a deposit paid for the granting of land use rights in GHIDZ of HK\$13.6 million. The increase in amounts due from related parties was primarily due to advances made to and amounts paid on behalf of the Hua Han Group.

In the ten months ended 30 April 2009, we had net cash used in investing activities of HK\$50.0 million, which was primarily due to an increase in amounts due from related parties of HK\$50.0 million. The increase in amounts due from related parties was primarily due to advances made to and amounts paid on behalf of the Hua Han Group.

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In the year ended 30 June 2009, we had net cash used in investing activities of HK\$44.2 million, which was primarily due to an increase in amounts due from related parties of HK\$44.2 million. The increase in amounts due from related parties was primarily due to advances made to and amounts paid on behalf of the Hua Han Group.

In the year ended 30 June 2008, we had net cash used in investing activities of HK\$49.2 million, which was primarily due to the acquisition of 70% equity interest in Donglisheng from an Independent Third Party in February 2008 in the amount of HK\$32.0 million and an increase in amounts due from related parties of HK\$16.4 million. The increase in amounts due from related parties was primarily due to advances made to and amounts paid on behalf of the Hua Han Group.

In the year ended 30 June 2007, we had net cash used in investing activities of HK\$38.6 million, which was primarily due to an increase in amounts due from related parties of HK\$33.1 million. The increase in amounts due from related parties was primarily due to advances made to and amounts paid on behalf of the Hua Han Group.

Cash flow from/(used in) financing activities

We derive our cash inflow from financing activities principally from advances from and amounts paid on our behalf by the Hua Han Group, capital contribution from the then shareholders of Magic Holdings and proceeds from issuance of shares of Magic Holdings. Our cash outflow used in financing activities is principally for repayment by us of previous advances from and amounts paid on behalf by the Hua Han Group.

In the ten months ended 30 April 2010, we had net cash from financing activities of HK\$51.6 million, which was primarily due to net proceeds from the issuance of shares of Magic Holdings to the First Strategic Investors in November 2009 in the amount of HK\$61.6 million. These cash inflows were partially offset by the decrease in amounts due to related parties of HK\$10.1 million. The decrease in amounts due to related parties was primarily due to repayment by us of previous advances from and amounts paid on behalf by the Hua Han Group.

In the ten months ended 30 April 2009, we had net cash used in financing activities of HK\$8.5 million, which was primarily due to a decrease in amounts due to related parties of HK\$8.4 million. The decrease in amounts due to related parties was primarily due to repayment by us of previous advances from and amounts paid on behalf by the Hua Han Group.

In the year ended 30 June 2009, we had net cash used in financing activities of HK\$2.8 million, which was primarily due to a decrease in amounts due to related parties of HK\$2.7 million. The decrease in amounts due to related parties was primarily due to repayment by us of previous advances from and amounts paid on behalf by the Hua Han Group.

In the year ended 30 June 2008, we had net cash from financing activities of HK\$39.0 million, which was primarily contributed by capital contribution from the then shareholders of Magic Holdings of which HK\$31.2 million was paid up by cash to fund the expansion of our business, and an increase in amounts due to related parties of HK\$8.0 million. The increase in amounts due to related parties was primarily due to advances from and amounts paid on behalf by the Hua Han Group.

FINANCIAL INFORMATION

In the year ended 30 June 2007, we had net cash from financing activities of HK\$28.9 million, which was primarily due to an increase in amounts due to related parties of HK\$26.6 million. The increase in amounts due to related parties was primarily due to advances from and amounts paid on behalf by the Hua Han Group.

Capital expenditures

The following table sets out our historical capital expenditures for the periods indicated:

	Year ended 30 June			Ten months ended 30 April
	2007	2008	2009	2010
	HK\$ ('000)	HK\$ ('000)	HK\$ ('000)	HK\$ ('000)
Historical capital expenditures				
Property, plant and equipment	<u>5,260</u>	<u>853</u>	<u>338</u>	<u>512</u>

Our capital expenditures in 2007, 2008 and 2009 and the ten months ended 30 April 2010 principally consisted of expenditures on a staff quarter in 2007, and expenditures on plant and equipment for our production facility in the Panyu District, Guangzhou, PRC.

The following table sets out our projected capital expenditures for the year ended 30 June 2010 and the year ending 30 June 2011:

	Year ended 30 June	Year ending 30 June
	2010	2011
	HK\$ ('000)	HK\$ ('000)
Projected capital expenditures		
Plant construction in progress	—	18,000
Equipment	1,000	2,000
Land use rights	13,600	—
Investment in subsidiaries	—	<u>11,600</u>
Total	<u>14,600</u>	<u>31,600</u>

We expect that the capital expenditures planned for 2010 and 2011 will be primarily used for plant construction in progress, equipment and land use rights, which primarily represent projected capital expenditures for our new production facility in GHIDZ, and for investment in our subsidiaries, including members of the MG JV Group.

We expect to fund our projected capital expenditures principally through a portion of the net proceeds of the Global Offering and cash generated from operating activities. Should the necessity for additional funds arise, we cannot assure you that we will be able to raise additional capital on terms acceptable to us or at all.

FINANCIAL INFORMATION

Our current plan with respect to future capital expenditures is subject to change based on the implementation of our business strategy and market conditions. As we continue to grow our business, we may incur additional capital expenditures.

Our ability to obtain additional funds in the future is subject to a variety of uncertainties, including our future results of operations, financial condition and cash flows and political, regulatory, economic and other conditions in China and Hong Kong.

Contractual commitments

As of 30 June 2007, 2008 and 2009 and 30 April 2010, we had commitments for future minimum lease payments under non-cancellable operating leases for our production facility and office premises in Guangzhou, PRC, which become due as follows:

	As of 30 June			As of 30 April
	2007	2008	2009	2010
	HK\$ ('000)	HK\$ ('000)	HK\$ ('000)	HK\$ ('000)
Minimum lease payments under non-cancellable operating leases				
Within one year	934	679	1,036	380
In the second to fifth years, inclusive	78	96	114	21
Total	1,012	775	1,150	401

We expect to fund such commitments principally from cash generated from operating activities.

As of 31 July 2010, our contractual commitments amounted to HK\$0.4 million.

Capital commitments

We had the following capital commitments which were not provided for in our combined financial statements:

	As of 30 June			As of 30 April
	2007	2008	2009	2010
	HK\$('000)	HK\$('000)	HK\$('000)	HK\$('000)
Capital commitments				
Contracted but not provided for	—	—	—	11,603

The capital commitments as of 30 April 2010 were primarily related to investments in our subsidiaries, including members of the MG JV Group. We expect to fund such commitments principally from cash generated from operating activities and net proceeds of the Global Offering.

FINANCIAL INFORMATION

As of 31 July 2010, our capital commitments amounted to HK\$11.7 million.

Contingent liabilities

As of 31 July 2010, the Group had no material contingent liabilities. The Group is not involved in any current material legal proceedings, nor is the Group aware of any pending or potential material legal proceedings involving the Group. If the Group was involved in such material legal proceedings, it would record any loss contingencies when, based on information then available, it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. We confirm that there has not been any material change in the level of our contingent liabilities since 31 July 2010.

INDEBTEDNESS

The following table sets out our borrowings as of 30 June 2007, 2008 and 2009 and 30 April 2010 by maturity date:

	As of 30 June			As of 30 April
	2007	2008	2009	2010
	HK\$ ('000)	HK\$ ('000)	HK\$ ('000)	HK\$ ('000)
Within one year or on demand	117	131	130	—
In the second year	118	130	130	—
In the third to fifth years, inclusive	2,119	2,203	2,066	—
Total.	2,354	2,464	2,326	—

All borrowings as of 30 June 2007, 2008 and 2009 were secured by a charge over leasehold building of the Group with net carrying amounts of approximately HK\$4.8 million, HK\$5.1 million and HK\$4.8 million, respectively.

The following table sets out the weighted average effective interest rates of our bank borrowings as of the dates indicated:

	As of 30 June			As of 30 April
	2007	2008	2009	2010
Weighted average effective interest rates .	6.0%	6.2%	5.2%	—

As of 31 July 2010, the latest practicable date for determining our indebtedness, the Group had no indebtedness and no banking facility. We confirm that there has not been any material change in our indebtedness since 31 July 2010.

FINANCIAL INFORMATION

Except as disclosed above, the Group did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees outstanding as of 31 July 2010. There are no material covenants relating to our outstanding debt that would prevent us from raising additional bank or other external financing.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, except for the commitments set out above, the Group has not entered into any off-balance sheet transactions.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Interest rate risk

Our exposure to the risk of changes in market interest rates relates primarily to our bank loan with a floating interest rate. We regularly review and monitor the floating interest rate borrowings in order to manage our interest rate risks. Interest-bearing loan, cash and short term deposits are stated at amortised cost and not revalued on a periodic basis. Floating rate interest income and expenses are credited or charged to the combined income statement as earned or incurred. We have not entered into any interest rate hedging contracts.

Foreign currency risk

Substantially all of our revenues and expenses generated and incurred by us are denominated in Renminbi. We are therefore exposed to foreign exchange translation risk, arising from the exposure of Hong Kong dollars against Renminbi. In addition, the conversion of Renminbi into foreign currencies is subject to the rules and regulations of the foreign exchange control promulgated by the PRC government. We currently do not use any forward contracts, currency borrowings or other means to hedge our foreign currency exposure.

Credit risk

Our principal financial assets are trade receivables, cash and cash equivalents and amounts due from related parties. We trade only with recognised and creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis and our exposure to bad debts is not significant. The credit risk of our other financial assets, which comprise cash and cash equivalents, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. We have not experienced any material impairment losses during the Track Record Period.

Liquidity Risk

We aim at maintaining a balance between continuity of funding and flexibility through maintaining sufficient cash and cash equivalents and available banking facilities. The Directors have reviewed our working capital and capital expenditure requirements and determined that our Group has no significant liquidity risk.

FINANCIAL INFORMATION

For an additional discussion of quantitative and qualitative information about market risks, please refer to section 39 to our combined financial statements included in the accountants' report set out in Appendix I to this prospectus.

DIVIDEND POLICY

During the year ended 30 June 2009, our subsidiary Guangdong Qunhe declared to its then shareholders a dividend of HK\$47.4 million. Such dividend was paid before Listing. Save as disclosed above, no other dividends were declared or distributed by us or any of our subsidiaries during the Track Record Period. We currently do not have a fixed dividend policy. According to the Articles of Association, we may declare and pay dividends out of our distributable reserves. The payment and the amount of any dividends will depend on the results of our operations, cash flow, financial condition, statutory and regulatory restrictions on the payment of dividends, future prospects and other factors that we may consider relevant. Holders of the Shares will be entitled to receive such dividends on a pro rata basis according to the amounts paid up or credited as paid up on the Shares. The declaration, payment, and amount of dividends will be subject to our discretion.

Dividends may be paid only out of our distributable profits as permitted under the relevant laws. To the extent profits are distributed as dividends, such profits will not be available to be reinvested in our operations. There is no assurance that dividends will be paid in the future. Neither will there be any assurance regarding the amount or timing of any dividends that will be paid in the future. Our dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

RELATED PARTY TRANSACTIONS

With respect to the related parties transactions set out in this prospectus, the Directors confirm that these transactions were conducted on normal commercial terms and/or that such terms were no less favourable to the Group than terms available to Independent Third Parties and were fair and reasonable and in the interest of our Shareholders as a whole.

For a discussion of related party transactions, please refer to section 35 of the accountants' report in Appendix I to this prospectus in addition to the other transactions detailed elsewhere in this prospectus.

DISTRIBUTABLE RESERVES

As of 30 April 2010, we had distributable reserves in the amount of HK\$214.5 million available for distribution to our Shareholders.

PROPERTY INTERESTS AND PROPERTY VALUATION

DTZ Debenham Tie Leung Limited, an independent property valuer, has valued our property interests as of 30 June 2010 at no commercial value. The full text of the letter, summary of valuation and valuation certificates with regard to such property interests are set out in Appendix IV to this prospectus.

FINANCIAL INFORMATION

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following statement of our unaudited pro forma adjusted net tangible assets was prepared in accordance with Rule 4.29 of the Listing Rules and is for illustration purposes only and may not give a true picture of the net tangible assets of the Group following the Global Offering. The following unaudited pro forma adjusted net tangible assets statement is set out below to illustrate the effect of the Global Offering on the net tangible assets of the Group assuming that the Global Offering was completed on 30 April 2010, the text of which is set out in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma adjusted net tangible assets statement does not form part of the accountants' report.

	Combined net tangible assets of the Group attributable to equity holders of the Company as of 30 April 2010	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted combined net tangible assets	Unaudited pro forma adjusted combined net tangible assets per Share
	HK\$ ('000) (Note 1)	HK\$ ('000) (Note 2)	HK\$ ('000)	HK\$ (Note 3)
Based on an Offer Price of HK\$2.40 per Share	269,813	433,000	702,813	0.88
Based on an Offer Price of HK\$3.30 per Share	269,813	608,000	877,813	1.10

Notes:

- (1) *The combined net tangible assets of the Group as of 30 April 2010 is arrived at based on the Group's combined net assets of the Group attributable to equity holders of the Company of HK\$312.8 million as of 30 April 2010 after deducting the intangible assets of HK\$27.2 million and goodwill of HK\$15.8 million as of 30 April 2010, both derived from the Group's audited financial information as of 30 April 2010.*
- (2) *The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$2.40 and HK\$3.30 per Share, after deduction of the underwriting fees and other related expenses payable by the Company. No account has been taken of the Shares which may fall to be issued upon the exercise of the Over-allotment Option.*
- (3) *The unaudited pro forma adjusted combined net tangible assets per Share is arrived at after adjustment for the estimated net proceeds from the Global Offering payable to the Company as described in note (2) and on the basis that a total of 800,000,000 Shares were in issue assuming that the Global Offering was completed on 30 April 2010 (including Shares in issue as of the date of this prospectus and those Shares to be issued pursuant to the Global Offering and the Capitalisation Issue, but excluding Shares that may be issued upon the exercise of the Over-allotment Option).*

PROFIT ESTIMATE

The Directors believe that, in the absence of unforeseen circumstances and on the basis of the assumptions set out in "Appendix III — Profit Estimate", the estimated combined profit attributable to equity holders of our Company for the year ended 30 June 2010 is unlikely to be less than HK\$110 million.

FINANCIAL INFORMATION

On a pro forma fully diluted basis and on the assumption that the Group had been listed since 1 July 2009 and a total of 800,000,000 Shares were issued and outstanding during the entire year (taking no account of any Shares which may be issued upon exercise of the Over-allotment Option), the estimated earnings per Share for the year ended 30 June 2010 is unlikely to be less than HK\$110 million, representing a price / earnings multiple of 17.5 times and 24.0 times if the Offer Price is HK\$2.40 and HK\$3.30 per Share, respectively.

The above profit estimate is based on the assumptions set out in “Appendix III — Profit Estimate” to this prospectus.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

The Directors have confirmed that as of the Latest Practicable Date, there are no circumstances which, had the Group been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in the financial or trading position or prospects of the Group since 30 April 2010, and there is no event since 30 April 2010 which would materially affect the information shown in the accountants’ report set out in Appendix I to this prospectus.


FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

Please refer to the section headed “Business — Strategies” in this prospectus for a detailed description of our future plans.

USE OF PROCEEDS

We estimate that the aggregate net proceeds of the Global Offering (after deducting underwriting fees and estimated expenses payable by us in connection with the Global Offering, and assuming an Offer Price of HK\$2.85 per Offer Share, being the mid point of the indicative Offer Price range of HK\$2.40 to HK\$3.30 per Offer Share) will be approximately HK\$520.0 million, assuming that Over-allotment Option is not exercised. We currently intend to apply such net proceeds in the following manner:

- approximately HK\$182.0 million (equivalent to approximately 35% of our total estimated net proceeds) will be used to market and promote our existing and new brands and products, of which (i) approximately HK\$70.0 million will be used on advertisements in magazines, the Internet, public transport and television; (ii) approximately HK\$40.0 million will be used to expand and enhance our distribution network; and (iii) the balance will be used on roadshows and other promotional activities;
- approximately HK\$130.0 million (equivalent to approximately 25% of our total estimated net proceeds) will be used for capital expenditures to establish new production facility in GHIDZ and purchase new production machinery and equipment for the production of products under our 美即 brand and other future brands;
- approximately HK\$104.0 million (equivalent to approximately 20% of our total estimated net proceeds) will be used to (i) design, research and develop new series of facial mask products, new series of Chinese herbal skincare products and skincare products to be used before and after facial masks, and (ii) enhance and improve the functionality of our existing products;
- approximately HK\$52.0 million (equivalent to approximately 10% of our total estimated net proceeds) will be used to market, sell and distribute cosmetic and skincare products in the PRC under MG JV Group; and
- approximately HK\$52.0 million (equivalent to approximately 10% of our total estimated net proceeds) for working capital and other general corporate purposes.

If the Offer Price is set at the high end of the indicative Offer Price range, being HK\$3.30 per Offer Share, the net proceeds of the Global Offering (assuming that the Over-allotment Option is not exercised) will increase by approximately HK\$88.0 million. If the Offer Price is set at the low end of the indicative Offer Price range, being HK\$2.40 per Share, the net proceeds of the Global Offering (assuming that the Over-allotment Option is not exercised) will decrease by approximately HK\$87.0 million. We will adjust the allocation of the net proceeds for the above purposes on a pro-rata basis.

FUTURE PLANS AND USE OF PROCEEDS

If the Over-allotment Option is exercised in full, the net proceeds of the Global Offering will increase to approximately HK\$603.0 million, assuming the Offer Price is set at the mid-point of the indicative Offer Price range. If the Offer Price is set at the high end of the indicative Offer Price range, the net proceeds of the Global Offering (including the proceeds from the exercise of the Over-allotment Option) will increase by approximately HK\$100.0 million. If the Offer Price is set at the low end of the indicative Offer Price range, the net proceeds of the Global Offering (including the proceeds from the exercise of the Over-allotment Option) will decrease by approximately HK\$100.0 million. We intend to apply the additional net proceeds from the exercise of the Over-allotment Option to the above purposes on a pro-rata basis.

Should our Directors decide to reallocate the intended use of proceeds to other business plans and/or new projects of our Group to a material extent and/or there is to be any material modification to the use of proceeds as described above, we will make appropriate announcement(s) in due course.

To the extent that the net proceeds of the Global Offering are not immediately required for the above purposes or if we are unable to effect any part of our future development plans as intended, we may hold such funds in short-term deposits with licensed banks and authorised financial institutions in Hong Kong for so long as it is in our best interests. We will also disclose the same in the relevant annual report.

As advised by our PRC legal adviser, subject to the relevant PRC governmental approval, registrations and/or filings, the net proceeds of the Global Offering can be applied in the PRC according to the above intended use of the net proceeds under the relevant existing laws and regulations in the PRC by: (i) increasing the registered capital of the Company's subsidiaries in the PRC; (ii) establishing a new subsidiary in the PRC; (iii) acquiring equity interests in other companies in the PRC; and/or (iv) providing shareholder's loans to the Company's subsidiaries in the PRC in an amount not exceeding the difference between the investment amount and the registered capital of such subsidiary. The Directors are of the view that there will be no material impact on the Group's liquidity requirements if the net proceeds of the Global Offering cannot be applied in the PRC.

UNDERWRITING

HONG KONG UNDERWRITERS

Sole lead manager

BOCI Asia Limited

Co-lead manager

First Shanghai Securities Limited

INTERNATIONAL UNDERWRITER

BOCI Asia Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting Agreement

We are offering the Hong Kong Offer Shares for subscription on, and subject to, the terms and conditions of this prospectus and the Application Forms. Subject to the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares to be offered as mentioned herein and to certain other conditions set out in the Underwriting Agreement, the Hong Kong Underwriters have agreed severally but not jointly to subscribe or procure subscribers for the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering on the terms and conditions of this prospectus, the Application Forms and the Underwriting Agreement, and the International Underwriter has agreed to subscribe or purchase or procure subscribers or purchasers for the International Offer Shares which are not taken up under the International Offering on the terms and conditions of the Underwriting Agreement.

We have granted the Over-allotment Option to the Sole Global Coordinator exercisable at any time from the Price Determination Date up to (and including) the date which is the 30th day after the last date for lodging of Application Forms under the Hong Kong Public Offering and the Preferential Offering, being 15 October 2010. Pursuant to the Over-allotment Option, the Sole Global Coordinator or its agent will have the right to require us to allot and issue up to an aggregate of 30,000,000 additional new Shares, representing in aggregate 15% of the Offer Shares initially available under the Global Offering. These Shares will be issued at the Offer Price. An announcement will be made if the Over-allotment Option is exercised.

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Grounds for termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscriptions for the Hong Kong Offer Shares under the Underwriting Agreement are subject to termination at any time prior to 8:00 a.m. on the Listing Date. The Sole Global Coordinator (for itself and on behalf of the Underwriters) may in its absolute discretion, upon giving notice in writing to the Company, terminate the Underwriting Agreement with immediate effect upon the occurrence of any of the following events:

- (a) there has come to the notice of the Sole Global Coordinator:
 - (i) that any statement contained in any of the web proof information pack, this prospectus, Application Forms and the formal notice (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect, inaccurate or misleading, or that any forecasts, expressions of opinion, intention or expectation expressed in the web proof information pack, this prospectus, Application Forms, formal notice and/or any announcements issued by the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) are not fair and honest nor based on reasonable assumptions; or
 - (ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of the prospectus, not having been disclosed in the prospectus, constitute an omission therefrom; or
 - (iii) any breach of any of the obligations imposed upon any party to the Underwriting Agreement (other than any of the Hong Kong Underwriters or the International Underwriter); or
 - (iv) any event, act or omission which gives or is likely to give rise to any liability of any of the Warrantors (as defined in the Underwriting Agreement) pursuant to the indemnities referred to in the Underwriting Agreement; or
 - (v) any adverse change or development involving an adverse change or a prospective adverse change in the earnings, business, operations, assets, liabilities, conditions, business affairs, prospects, profits, losses or financial or trading position or performance of any member of the Group; or
 - (vi) any breach of any of the warranties or undertakings given by any of the Warrantors under the Underwriting Agreement or any matter or event showing any of such warranties or undertakings to be untrue, incorrect, inaccurate or misleading in any respect when given or repeated; or

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- (vii) approval by the Listing Committee of the listing of, and permission to deal in, the Shares in issue and to be issued or sold (including any additional Shares that may be sold pursuant to the exercise of the Over-allotment Option) under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
 - (viii) the Company withdraws this prospectus (and any other documents used in connection with the contemplated subscription of the Shares) or the Global Offering; or
- (b) there develops, occurs, exists or comes into force:
- (i) any act of force majeure or any event, or series of events, beyond the control of the Sole Global Coordinator including, without limitation, acts of government, economic sanctions, strikes, lock-outs, fire, explosion, flooding, civil commotion, riots, public disorder, acts of war, acts of God, acts of terrorism, outbreak of diseases or epidemics (including, but not limited to, SARS and H5N1 and such related/mutated forms) or interruption or delay in transportation and any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or any other state of emergency or calamity or crisis in or affecting Hong Kong, the PRC, the United States, the European Union, the United Kingdom, the Cayman Islands, Japan, Singapore or any other jurisdiction relevant to any member of the Group (collectively, the “**Relevant Jurisdictions**”); or
 - (ii) any change or development involving a prospective change or development, or any event or series of events likely to result in any change or development involving a prospective change, in local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency or market conditions or any monetary or trading settlement system or matters and/or disaster (including, without limitation, any moratorium, suspension or material restriction on trading in securities generally on the Hong Kong Stock Exchange, the Shanghai Stock Exchange, the New York Stock Exchange or the London Stock Exchange, or a material devaluation of Hong Kong dollars or the Renminbi against any foreign currencies (including but not limited to a change in the system under which the value of the Hong Kong currency is linked to that of the United States), or any disruption in securities settlement or clearance services or procedures in or affecting any of the Relevant Jurisdictions); or
 - (iii) any general moratorium on commercial banking activities in any of the Relevant Jurisdictions, or there is any disruption in commercial banking or securities settlement or clearance services in those jurisdictions; or
 - (iv) any new law or change or development involving a prospective change in existing laws or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting any of the Relevant Jurisdictions; or

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- (v) the imposition of economic sanctions, in whatever form, directly or indirectly, by the United States or by the European Union (or any member thereof) or the PRC or Hong Kong or any other jurisdiction relevant to any member of the Group; or
- (vi) a change or development occurs involving a prospective change in taxation or exchange control, currency exchange rates or foreign investment regulations (or the implementation of any exchange control) in any of the Relevant Jurisdictions adversely affecting an investment in the Shares; or
- (vii) any litigation or claim of any third party being threatened or instigated against any member of the Group; or
- (viii) a Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (ix) the chairman or chief executive officer of the Company vacating his office in circumstances where the operations of the Group may be adversely affected; or
- (x) the commencement by any regulatory or political body or organization of any action against a Director or an announcement by any regulatory or political body or organization that it intends to take any such action; or
- (xi) a contravention by any member of the Group of the Companies Ordinance or any of the Listing Rules or applicable laws; or
- (xii) a prohibition on the Company for whatever reason from allotting its Shares pursuant to the terms of the Global Offering; or
- (xiii) non-compliance of the prospectus (or any other documents used in connection with the contemplated subscription of the Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable law; or
- (xiv) other than with the approval of the Sole Global Coordinator, the issue or requirement to issue by the Company of a supplementary prospectus (or any other documents used in connection with the contemplated subscription of the Shares) pursuant to the Companies Ordinance or the Listing Rules; or
- (xv) a valid demand by any creditor for repayment or payment of any indebtedness of any member of the Group or in respect of which any member of the Group is liable prior to its stated maturity; or
- (xvi) a petition is presented for the winding up or liquidation of any member of the Group or any member of the Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of the Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any member of the Group or anything analogous thereto occurs in respect of any member of the Group; or

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(xvii) any change or prospective change, or a materialization of, any of the risks set out in the section headed “Risk Factors” in this prospectus;

which in the sole opinion of the Sole Global Coordinator (for itself and on behalf of the Underwriters):

- (aa) is or is likely to or will or may have a material adverse effect on the business, financial, trading or other condition or prospects of the Company or the Group as a whole or, in the case of sub-paragraph (vi) above, to any present or prospective shareholder of the Company in his/its capacity as such; or
- (bb) has or will have or may have a material adverse effect on the success of the Global Offering or the level of Offer Shares being applied for, accepted, subscribed for or purchased or the distribution of Offer Shares or dealings in the Shares in the secondary market; or
- (cc) makes it inadvisable, inexpedient or impracticable to proceed with or market the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated in this prospectus; or
- (dd) would have the effect of making any part of the Underwriting Agreement incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Global Offering or pursuant to the Underwriting Agreement.

Undertakings to the Stock Exchange pursuant to the Listing Rules

Undertaking by us

Pursuant to Rule 10.08 of the Listing Rules, no further Shares or securities convertible into equity securities (whether or not of a class already listed) may be issued or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except pursuant to the Global Offering, the Share Option Scheme and in certain circumstances prescribed by Rule 10.08 of the Listing Rules.

Undertakings pursuant to the Underwriting Agreement

Undertaking by us

Pursuant to the Underwriting Agreement, we have undertaken to the Sole Global Coordinator and each of the Underwriters that we will not, and each of Hua Han, Queenherb and the Management Shareholders (collectively the “**Covenantors**” and each a “**Covenantor**”) has undertaken to the Sole Global Coordinator and each of the Underwriters to procure that the Company will not, except

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pursuant to the Global Offering, the Capitalisation Issue and the Share Option Scheme, without the prior written consent of the Sole Global Coordinator (on behalf of the Underwriters) and unless in compliance with the Listing Rules, at any time from the date of the Underwriting Agreement to the expiry of the six months from the Listing Date (“**First Six-month Period**”):

- (i) offer, accept subscription for, pledge, charge, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, or repurchase any of its share capital or other securities of our Company or any of our subsidiaries or any interest therein (including but not limited to any securities convertible into or exercisable or exchangeable for or that represent the right to receive any such share capital or securities or any interest therein); or
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital or securities or any interest therein; or
- (iii) enter into any transaction with the same economic effect as any transaction specified in (i) or (ii) above; or
- (iv) offer to or agree to do any of the foregoing or announce any intention to do so, whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise,

and in the event of us doing any of the foregoing during the period of six months immediately following the expiry of the First Six-month Period, we will, and each of the Covenantors will procure the Company to, take all reasonable steps to ensure that any such act will not create a disorderly or false market for any Shares or other securities of our Company.

Undertaking by the Covenantors

Although each of the Covenantors is not a Controlling Shareholder, each of them has jointly and severally undertaken to us, the Sole Global Coordinator and each of the Underwriters that, except pursuant to the Global Offering and the Stock Borrowing Agreement, none of the Covenantors will, and will procure that none of its associates or companies controlled by it or any nominee or trustee holding in trust for it will, without the prior written consent of the Sole Global Coordinator (on behalf of the Underwriters) and unless in compliance with the Listing Rules, at any time during the First Six-month Period:

- (i) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend, make any short sale or otherwise transfer or dispose of (nor enter into any agreement to transfer or dispose of or otherwise create any options, rights, interests or encumbrances in respect of), either directly or indirectly, conditionally or unconditionally, any of the share or debt capital or other securities of our Company or any interest therein (including, but not limited to any securities that are convertible into or exercisable or

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exchangeable for, or that represent the right to receive, any such capital or securities or any interest therein) whether now owned or hereinafter acquired, owned directly or indirectly by it (including holding as a custodian) or with respect to which it has beneficial ownership (collectively the “**Lock-up Shares**”) (the foregoing restriction is expressly agreed to preclude it from engaging in any hedging or other transaction which is designed to or which reasonably could be expected to lead to or result in a sale or disposition of the Lock-up Shares even if such Shares would be disposed of by someone other than it. Such prohibited hedging or other transactions would include without limitation any short sale or any purchase, sale or grant of any right (including without limitation any put or call option) with respect to any of the Lock-up Shares or with respect to any security that includes, relates to, or derives any significant part of its value from such Shares); or

- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such capital or securities or any interest therein; or
- (iii) enter into any transaction with the same economic effect as any transaction described in (i) or (ii) above; or
- (iv) offer or agree or contract to, or publicly announce any intention to enter into, any transaction described in (i) or (ii) or (iii) above, whether any such transaction described in (i) or (ii) or (iii) above is to be settled by delivery of Shares or such other securities, in cash or otherwise.

Additionally, during the period of six months immediately following the expiry of the First Six-month Period, each of the Covenantors will not enter into any of the foregoing transactions in (i), (ii), (iii) or (iv) above or agree or contract to or publicly announce any intention to enter into any such transactions if, immediately following such transaction, the Covenantors in aggregate will cease to exercise or control the exercise of 30% or more of the voting power at our general meetings or will cease to control the composition of the majority of the Board.

Subject to the restrictions above, until the expiry of the period of six months immediately following the expiry of the First Six-month Period, if any of the Covenantors enters into any of the foregoing transactions in (i), (ii), (iii) or (iv) above or agrees or contracts to, or publicly announces an intention to enter into any such transactions, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the Shares or other securities of our Company.

Indemnity

We and each of the Covenantors have agreed to indemnify the Underwriters for certain losses which they may suffer, including, among other things, losses arising from the performance of their obligations under the Underwriting Agreement and any breach by us of the provisions of the Underwriting Agreement.

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Commissions and expenses

The Hong Kong Underwriters will receive a gross commission of 3.25% of the aggregate Offer Price of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering. For unsubscribed Hong Kong Offer Shares reallocated to the International Offering and any International Offer Shares reallocated from the International Offering to the Hong Kong Public Offering, we will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the International Underwriter and not the Hong Kong underwriters. The International Underwriter will receive a gross commission of 3.25% of the aggregate Offer Price of the International Offer Shares and any additional Shares which may be delivered by us pursuant to the Over-allotment Option under the Underwriting Agreement.

The aggregate commissions (exclusive of any discretionary incentive fees), together with listing fees, the SFC transaction levy and the Stock Exchange trading fee in respect of the new Shares offered by us, legal and other professional fees and printing and other expenses relating to the Global Offering are estimated to amount to approximately HK\$50.0 million (assuming an Offer Price of HK\$2.85, which is the midpoint of the indicative Offer Price range and that the Over-allotment Option is not exercised) in total and are payable by us. Pursuant to the undertakings dated 6 September 2010 from each of Hua Han and the Management Shareholders, each of them has agreed to bear their respective proportionate amount of expenses in relation to our listing process. The exact amount to be borne by them will be determined after Listing, provided that such amount shall not exceed their proportionate shareholding interest in Magic Holdings prior to Reorganisation.

Activities by Syndicate Members

We describe below a variety of activities that the Hong Kong Underwriters and International Underwriter (together referred to as “**Syndicate Members**”) may each individually undertake, and which do not form part of the underwriting or the stabilising process. When engaging in any of these activities, it should be noted that the Syndicate Members are subject to restrictions, including the following:

- (a) under the agreement among the Syndicate Members, all of them (except for BOCI and/or its affiliates and as the Stabilisation Manager) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilising or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- (b) all of them must comply with all applicable laws, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to the Shares, those activities could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a

UNDERWRITING

principal capacity, proprietary trading in the Shares and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have the Shares as their or part of their underlying assets. Those activities may require hedging activity by those entities involving, directly or indirectly, buying and selling the Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to any issue by Syndicate Members or their affiliates of any listed securities having Shares as their or part of their underlying assets, whether on the Stock Exchange or on any other stock exchange, the rules of the relevant exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

All of these activities may occur both during and after the end of the stabilising period described in the section headed “Structure of the Global Offering — Stabilisation” in this prospectus. These activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of their share price, and the extent to which this occurs from day to day cannot be estimated.

Hong Kong Underwriters’ interests in us

Save for their respective obligations under the Underwriting Agreement and, if applicable, the Stock Borrowing Agreement, none of the Hong Kong Underwriters has any shareholding interests in us or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in us.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Underwriting Agreement.

Sponsor’s independence

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. BOCI is the Sole Global Coordinator, Sole Sponsor, Sole Bookrunner and Sole Lead Manager of the Global Offering. The Global Offering consists of (subject to the Over-allotment Option):

- (i) the Hong Kong Public Offering of 20,000,000 Shares (subject to adjustment as mentioned below) in Hong Kong as described below under the paragraph headed “Hong Kong Public Offering”; and
- (ii) the International Offering of 180,000,000 Shares (subject to adjustment and the Over-allotment Option as mentioned below) outside the United States in reliance on Regulation S; the International Offering also includes the Preferential Offering, under which up to 8,011,700 Shares will be offered as Reserved Shares for subscription by the Qualifying Hua Han Shareholders.

Investors may apply for the Hong Kong Offer Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the International Offer Shares under the International Offering, but may not do both (except those eligible to apply for the Reserved Shares in the Preferential Offering may also apply for the Hong Kong Offer Shares under the Hong Kong Public Offering). The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Offering will involve selective marketing of the International Offer Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. The International Underwriter is soliciting from prospective investors indications of interest in acquiring the International Offer Shares in the International Offering. Prospective investors will be required to specify the number of International Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to the Price Determination Date. The Preferential Offering is open only to Qualifying Hua Han Shareholders.

The number of Hong Kong Offer Shares to be offered under the Hong Kong Public Offering and the number of International Offer Shares to be offered under the International Offering respectively may be subject to reallocation as described under the paragraph headed “Pricing and Allocation” below.

PRICING AND ALLOCATION

The Offer Price is expected to be fixed by agreement between the Sole Bookrunner (on behalf of the Underwriters) and us on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around 16 September 2010 and in any event, no later than 20 September 2010. The Offer Price will be not more than HK\$3.30 per Offer Share and is expected to be not less than HK\$2.40 per Offer Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Hong Kong Public Offering and the Preferential Offering, as explained below. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

STRUCTURE OF THE GLOBAL OFFERING

If, based on the level of interest expressed by prospective institutional and professional investors and other investors during the book-building process, the Sole Bookrunner (on behalf of the Underwriters and with the consent of our Company) considers the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range inappropriate, the Sole Bookrunner (on behalf of the Underwriters) may reduce the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering and the Preferential Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering and the Preferential Offering on 15 September 2010, cause to be published in The Standard (in English) and the Hong Kong Economic Times (in Chinese) notice of the reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range. Such notice will also be available at the website of the Stock Exchange at www.hkexnews.hk and our website at www.magicholdings.co. Such notice will also include confirmation or revision, as appropriate, of the offering statistics as currently set out in the section headed "Summary" in this prospectus and any other financial information which may change as a result of such reduction. The Offer Price if agreed upon, will be fixed within such revised Offer Price range. Before submitting applications for Hong Kong Offer Shares and Reserved Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering and the Preferential Offering. In the absence of any notice being published of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range stated in this prospectus on or before the last day for lodging applications under the Hong Kong Public Offering and Preferential Offering, the Offer Price, if agreed upon, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

The Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Sole Global Coordinator. Allocation of the International Offer Shares pursuant to the International Offering will be determined by the Sole Global Coordinator and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell Shares after the listing of the Offer Shares on the Stock Exchange. Such allocation may be made to professional, institutional and corporate investors and is intended to result in a distribution of our Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and our Shareholders as a whole.

Allocation of Shares to investors under the Hong Kong Public Offering will be based on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants, although the allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

STRUCTURE OF THE GLOBAL OFFERING

The applicable Offer Price, level of applications in the Hong Kong Public Offering and the Preferential Offering, the level of indications of interest in the International Offering, and the basis of allocations of the Hong Kong Offer Shares and the Reserved Shares and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering and the Preferential Offering are expected to be made available in a variety of channels in the manner described in the section headed “How to Apply for Hong Kong Offer Shares and Reserved Shares — IV. Publication of Results, Despatch/Collection of Share Certificates and Refunds of Application Monies” in this prospectus from Wednesday, 22 September 2010.

CONDITIONS OF THE HONG KONG PUBLIC OFFERING AND THE PREFERENTIAL OFFERING

Acceptance of all applications for the Hong Kong Offer Shares pursuant to the Hong Kong Public Offering and the Reserved Shares pursuant to the Preferential Offering will be conditional upon:

- (a) the granting by the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue, the Offer Shares (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option), Shares to be issued pursuant to the Capitalisation Issue and any Shares which may be issued under the Share Option Scheme;
- (b) the Offer Price being duly determined between us and the Sole Bookrunner (on behalf of the Underwriters);
- (c) the obligations of the Underwriters under the Underwriting Agreement having become unconditional and not having been terminated in accordance with the terms of the agreement,

in each case on or before the dates and times specified in the Underwriting Agreement (unless and to the extent that such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this prospectus.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will cause a notice of the lapse of the Hong Kong Public Offering and the Preferential Offering to be published in *The Standard* (in English) and the *Hong Kong Economic Times* (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed “How to Apply for Hong Kong Offer Shares and Reserved Shares” in this prospectus. In the meantime, the application monies will be held in separate bank account(s) with the receiving banker(s) or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

The consummation of each of the Hong Kong Public Offering and the International Offering (including the Preferential Offering) is conditional upon, among other things, the Underwriting Agreement becoming unconditional and not having been terminated in accordance with its terms.

STRUCTURE OF THE GLOBAL OFFERING

HONG KONG PUBLIC OFFERING

Number of Shares initially offered and their allocation

We are initially offering 20,000,000 Shares at the Offer Price, representing approximately 10% of the 200,000,000 Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to adjustment as mentioned below, the number of Shares offered under the Hong Kong Public Offering will represent 2.5% of our total issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised. In Hong Kong, individual retail investors are expected to apply for Offer Shares through the Hong Kong Public Offering and individual retail investors, including individual investors in Hong Kong applying through banks and other institutions, seeking Offer Shares in the International Offering will not be allocated Offer Shares in the Hong Kong Public Offering (except in respect of the Reserved Shares applied for pursuant to the Preferential Offering).

For allocation purposes only, the total number of Hong Kong Offer Shares initially available for subscription by the public under the Hong Kong Public Offering, on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider via the **HK eIPO White Form** service (subject to any adjustment of the Shares between the International Offering and the Hong Kong Public Offering) will be divided equally (to the nearest board lot) into two pools for allocation purposes: Pool A and Pool B. The Hong Kong Offer Shares in Pool A will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares with a total subscription amount of HK\$5 million or below (excluding brokerage, the SFC transaction levy and the Stock Exchange trading fee payable). The Hong Kong Offer Shares in Pool B will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares with a total subscription amount of more than HK\$5 million (excluding brokerage, the SFC transaction levy and the Stock Exchange trading fee payable) and up to the total initial value of Pool B.

Applicants should be aware that applications in Pool A and applications in Pool B may receive different allocation ratios. If the Hong Kong Offer Shares in one (but not both) of the pools are undersubscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. The applicant can only receive an allocation of Hong Kong Offer Shares from either Pool A or Pool B but not from both pools. We will reject multiple applications between the two pools and reject multiple applications within Pool A or Pool B.

In the case of over-subscription, allocation of the Hong Kong Offer Shares to investors under the Hong Kong Public Offering, both in relation to Pool A and Pool B, will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation in each pool may vary, depending on the number of Hong Kong Offer Shares validly applied for by each applicant. The allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares. Multiple or suspected multiple applications and any application for more than 50% of the Hong Kong Offer Shares initially being offered for subscription by the public (that is, to apply for more than 10,000,000 Shares) are liable to be rejected.

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The allocation of Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. If the number of Shares validly applied for in the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, or (iii) 100 times or more, of the number of Offer Shares initially available under the Hong Kong Public Offering, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 60,000,000, 80,000,000 and 100,000,000 Shares, respectively, representing 30% (in the case of (i)), 40% (in the case of (ii)) and 50% (in the case of (iii)), respectively, of the total number of Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option), and such reallocation being referred to in this prospectus as “**Mandatory Reallocation**”. In such cases, the number of Offer Shares allocated in the International Offering (save for the Reserved Shares) will be correspondingly reduced, in such manner as the Sole Global Coordinator deems appropriate, and such additional Offer Shares will be reallocated to Pool A and Pool B in the Hong Kong Public Offering.

If the Hong Kong Public Offering is not fully subscribed, the Sole Global Coordinator has the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Sole Global Coordinator deems appropriate. In addition to any Mandatory Reallocation which may be required, the Sole Global Coordinator may, at their sole discretion, reallocate Shares initially allocated for the International Offering (save for the Reserved Shares) to the Hong Kong Public Offering to satisfy valid applications in Pool A and Pool B under the Hong Kong Public Offering, regardless of whether the Mandatory Reallocation is triggered.

Applications

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him/her that he/she and any person for whose benefit he/she is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering (save in respect of the Reserved Shares applied for pursuant to the Preferential Offering), and such applicant's application is liable to be rejected if the said undertaking or confirmation is breached or untrue (as the case may be) or it has been or will be placed or allocated International Offer Shares under the International Offering.

Our Company, our Directors and the Underwriters will take reasonable steps to identify and reject applications under the Hong Kong Public Offering from investors who have received Shares in the International Offering (save in respect of the Reserved Shares applied for pursuant to the Preferential Offering) and to identify and reject indications of interest in the International Offering (save for the Preferential Offering) from investors who have received Shares in the Hong Kong Public Offering.

The Offer Price will be not more than HK\$3.30 and is expected to be not less than HK\$2.40. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK\$3.30 per Offer Share plus 1.0% brokerage fee, 0.004% SFC transaction levy, and 0.005% Stock Exchange trading fee. If the Offer Price, as finally determined on the Price Determination Date, is lower than HK\$3.30, being the maximum Offer Price, we will refund the respective difference (including the brokerage fee, the SFC transaction levy, and the Stock Exchange trading fee attributable to the surplus application monies) to successful applicants, without interest. Further details are set out in the section headed “How to Apply for Hong Kong Offer Shares and Reserved Shares” in this prospectus.

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THE PREFERENTIAL OFFERING

In order to enable shareholders of Hua Han to participate in the Global Offering on a preferential basis as to allocation only, Qualifying Hua Han Shareholders are being invited to apply for an aggregate of up to 8,011,700 Reserved Shares (representing approximately 4.0% of the Offer Shares initially available under the Global Offering and approximately 1.0% of the enlarged issued share capital of our Company upon completion of the Global Offering and assuming the Over-allotment Option is not exercised) in the Preferential Offering on the basis of an Assured Entitlement of 20 Reserved Shares for every integral multiple of 4,000 Hua Han Shares held by them as at 5:00 pm on the Record Date. Fractional Shareholders will not be entitled to apply for any Reserved Share. The Reserved Shares are being offered out of the Offer Shares being offered under the International Offering and are not subject to the clawback mechanism as described in the section headed “Structure of The Global Offering — Hong Kong Public Offering” above.

The Assured Entitlements may represent Shares which are not in a multiple of a full board lot of 1,000 Shares. Dealings in odd lots of Shares may be at or below their prevailing market price.

A **BLUE** Application Form is being despatched to each Qualifying Hua Han Shareholder together with a copy of this prospectus. Qualifying Hua Han Shareholders are permitted to apply for a number of Reserved Shares which is greater than, less than or equal to, their Assured Entitlements under the Preferential Offering. A valid application in respect of a number of Reserved Shares less than or equal to a Qualifying Hua Han Shareholder’s Assured Entitlement will be accepted in full, subject to the terms and conditions set out in this prospectus and in the **BLUE** Application Form. If an application is made for a number of Reserved Shares greater than the Assured Entitlement of a Qualifying Hua Han Shareholder, the Assured Entitlement will be satisfied in full, subject as mentioned above, but the excess portion of such application will only be met to the extent that there are sufficient available Reserved Shares resulting from other Qualifying Hua Han Shareholders with an Assured Entitlement declining to take up all or some of their Assured Entitlements. The Sole Bookrunner, on behalf of the Underwriters, will allocate any Reserved Shares not taken up by the Qualifying Hua Han Shareholders first to satisfy the excess applications for the Reserved Shares from other Qualifying Hua Han Shareholders on a fair and reasonable basis and may give preference to topping-up odd lots to whole board lots, and thereafter, at the discretion of the Sole Bookrunner, to other investors in the International Offering. The Qualifying Hua Han Shareholders should note that the Board will regard any nominee company (including HKSCC Nominees Limited) as a single Shareholder according to the register of members of the Company. Accordingly, the Qualifying Hua Han Shareholders should note that the aforesaid arrangement in relation to the allocation of the excess Reserved Shares on the basis of the top-up arrangement will not be extended to beneficial owners individually. Save for the above, the Preferential Offering will not be subject to the clawback arrangement between the International Offering and the Hong Kong Public Offering. If an application is made for a number of Reserved Shares less than the Assured Entitlement of a Qualifying Hua Han Shareholder, the applicant is recommended to apply for a number in one of the multiples of full board lots stated in the table of multiples and payments on the back page of the **BLUE** Application Form which also states the amount of remittance payable on application for each multiple of full board lots of Reserved Shares. If such applicant does not follow this recommendation when applying for less than the Assured Entitlement, he/she/it must calculate the correct amount of remittance payable

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on application for the number of Reserved Shares applied for by using the formula set out below the table of multiples and payments on the back page of the **BLUE** Application Form. Any application not accompanied by the correct amount of application monies will be treated as invalid in its entirety and no Reserved Share will be allotted to such applicant.

In addition to any application for the Reserved Shares on a **BLUE** Application Form, Qualifying Hua Han Shareholders will be entitled to make one application for the Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the **HK eIPO White Form** Service Provider via the **HK eIPO White Form** service. Qualifying Hua Han Shareholders will receive no preference as to entitlement or allocation in respect of applications for Hong Kong Offer Shares made on **WHITE** or **YELLOW** Application Forms or by giving **electronic application instructions** to HKSCC or through the **HK eIPO White Form** Service Provider under the Hong Kong Public Offering.

Assured Entitlements of Qualifying Hua Han Shareholders are not transferable and there will be no trading in nil-paid entitlements on the Stock Exchange. The Sole Bookrunner has the authority to reallocate all or any of the Reserved Shares not taken up by the Qualifying Hua Han Shareholders to the International Offering.

The procedures for application under, and the terms and conditions of, the Preferential Offering are set out in the sections headed “How to Apply for Hong Kong Offer Shares and Reserved Shares” and “Further Terms and Conditions of Hong Kong Public Offering and Preferential Offering” in this prospectus and on the **BLUE** Application Form.

The documents to be issued in connection with the Hong Kong Public Offering and the Preferential Offering (comprising this prospectus and the Application Forms) will not be registered under any applicable securities legislation of any jurisdiction other than Hong Kong. Accordingly, no Reserved Share is being offered to Overseas Hua Han Shareholders under the Preferential Offering and no BLUE Application Form will be sent to such persons. Applications on BLUE Application Forms will not be accepted from Overseas Hua Han Shareholders or persons who are acting for the benefit of Overseas Hua Han Shareholders.

INTERNATIONAL OFFERING

Number of Offer Shares offered and their allocation

The number of Shares to be initially offered for subscription or sale under the International Offering will be 180,000,000 Shares (subject to adjustment and the Over-allotment Option), representing approximately 90% of the Offer Shares under the Global Offering. The International Offering is subject to the Underwriting Agreement becoming unconditional.

Pursuant to the International Offering, the International Underwriter will conditionally place our Shares with institutional and professional investors and other investors expected to have a sizeable demand for our Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the “book-building” process described in “Pricing and Allocation” in this section and

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based on a number of factors, including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares, and/or hold or sell its Shares, after the listing of the Shares on the Stock Exchange. Such allocation is intended to result in a distribution of our Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and our Shareholders as a whole.

The Sole Global Coordinator (on behalf of the Underwriters) may require any investor who has been offered Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Sole Global Coordinator in order to allow them to identify the relevant applications under the Hong Kong Public Offering and to consider whether it should be excluded from any application for Shares under the Hong Kong Public Offering.

The Reserved Shares being offered pursuant to the Preferential Offering are being offered out of the International Offer Shares (see the section headed "Structure of the Global Offering — The Preferential Offering" in this prospectus).

OVER-ALLOTMENT OPTION

We have granted the Over-allotment Option to the Sole Global Coordinator exercisable at any time from the Price Determination Date up to (and including) the date which is the 30th day after the last date for the lodging of Application Forms under the Hong Kong Public Offering and the Preferential Offering, being 15 October 2010. Pursuant to the Over-allotment Option, the Sole Global Coordinator will have the right to require us to allot and issue up to an aggregate of 30,000,000 additional new Shares, representing in aggregate 15% of the Offer Shares initially available under the Global Offering. These Shares will be issued at the Offer Price. We will make an announcement if the Over-allotment Option is exercised.

STOCK BORROWING ARRANGEMENT

In order to facilitate the settlement of over-allocation in connection with the Global Offering, the Stabilisation Manager may choose to borrow, whether on its own or through its affiliates and agents, up to 30,000,000 Shares from Queenherb pursuant to a stock borrowing arrangement (being the maximum number of Shares which may be issued upon exercise of the Over-allotment Option), or acquire Shares from other sources, including the exercise of the Over-allotment Option.

If such stock borrowing arrangement with Queenherb is entered into, it will only be effected by the Stabilisation Manager or its agent for settlement of over-allocation in the International Offering and such arrangement is not subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set out in Rule 10.07(3) of the Listing Rules are complied with:

- (a) the stock borrowing arrangement with Queenherb will only be effected for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option;

STRUCTURE OF THE GLOBAL OFFERING

- (b) the maximum number of Shares to be borrowed from Queenherb will be limited to the maximum number of Shares which may be allotted and issued by our Company upon full exercise of the Over-allotment Option;
- (c) the same number of Shares so borrowed (if any) must be returned to Queenherb or its nominees (as the case may be), no later than three Business Days after the earlier of (i) the last day on which the Over-allotment Option may be exercised; and (ii) the day on which the Over-allotment Option is exercised in full;
- (d) the stock borrowing arrangement will be effected in compliance with all applicable laws, Listing Rules and regulatory requirements; or
- (e) no payments will be made to Queenherb by the Stabilisation Manager, in relation to the stock borrowing arrangement.

STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the new securities in the secondary market during a specified period of time to retard and, if possible, prevent any decline in the market price of the securities below the offer price. In Hong Kong, activity aimed at reducing the market price is prohibited and the price at which stabilisation is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilisation Manager and/or its affiliates and agents, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect any other transactions with a view to stabilising or maintaining the market price of our Shares at a level higher than that which might otherwise prevail in the open market for a limited period from the Listing Date and ending on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering and the Preferential Offering being 15 October 2010. Any market purchases of Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilisation Manager or its agent to conduct any such stabilising activity, which if commenced, will be done at the absolute discretion of the Stabilisation Manager and may be discontinued at any time. Any such stabilising activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering and the Preferential Offering, being 15 October 2010. The number of Shares that may be over-allocated will not exceed the number of Shares that may be sold under the Over-allotment Option, namely 30,000,000 Shares, which is approximately 15% of the Offer Shares initially available under the Global Offering.

In Hong Kong, stabilising activities must be carried out in accordance with the Securities and Futures (Price Stabilising) Rules, Chapter 571W of the Laws of Hong Kong. Stabilising action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilising) Rules includes: (i) over-allocation for the purpose of preventing or minimising any reduction in the market price of the Shares; (ii) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of the Shares; (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, the Shares pursuant to the Over-allotment Option in order to close

STRUCTURE OF THE GLOBAL OFFERING

out any position established under (i) or (ii) above; (iv) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimising any reduction in the market price of the Shares; and (v) selling or agreeing to sell any Shares in order to liquidate any position held as a result of those purchases; and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v) above.

Specifically, prospective applicants for and investors in our Shares should note that:

- (a) the Stabilisation Manager, or any person acting for it, may, in connection with the stabilising action, maintain a long position in our Shares;
- (b) there is no certainty regarding the extent to which and the time period for which the Stabilisation Manager, or any person acting for it, will maintain such a long position;
- (c) liquidation of any such long position by the Stabilisation Manager may have an adverse impact on the market price of our Shares;
- (d) no stabilising action can be taken to support the price of our Shares for longer than the stabilising period which will begin on the Listing Date, and is expected to expire on 15 October 2010, being the 30th day after the last date for lodging applications under the Hong Kong Public Offering and the Preferential Offering. After this date, when no further stabilising action may be taken, demand for our Shares, and therefore the price of our Shares, could fall;
- (e) the price of our Shares cannot be assured to stay at or above the Offer Price either during or after the stabilising period by the taking of any stabilising action; and
- (f) stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, our Shares.

Our Company will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilising) Rules will be made within seven days of the expiration of the stabilising period.

In connection with the Global Offering, the Stabilisation Manager may over-allocate up to and not more than an aggregate of 30,000,000 additional Shares and cover such over-allocations by the exercise of the Over-allotment Option, which will be exercisable by the Sole Global Coordinator, or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or a combination of these means. In particular, for the purpose of settlement of over-allocations in connection with the International Offering, the Stabilisation Manager may borrow up to 30,000,000 Shares from Queenherb, equivalent to the maximum number of Shares to be issued on full exercise of the Over-allotment Option, under the Stock Borrowing Agreement. The stock borrowing arrangement will be effected in compliance with all applicable laws, rules and regulatory requirements. No payments or other benefit will be made to Queenherb by the Stabilisation Manager in relation to the stock borrowing arrangement.

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DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering and the Preferential Offering become unconditional at or before 8:00 a.m. in Hong Kong on 24 September 2010, it is expected that dealings in Shares on the Stock Exchange will commence at 9:30 a.m. on 24 September 2010.

UNDERWRITING ARRANGEMENTS

The Hong Kong Public Offering and the International Offering are fully underwritten by the Hong Kong Underwriters and the International Underwriter, respectively under the terms of the Underwriting Agreement, subject to agreement on the Offer Price between the Sole Bookrunner (on behalf of the Underwriters) and us on the Price Determination Date.

The underwriting arrangements are summarised in the section headed “Underwriting” in this prospectus.

HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

I. HOW TO APPLY FOR HONG KONG OFFER SHARES

1. Who can apply for the Hong Kong Offer Shares

You can apply for the Hong Kong Offer Shares available for subscription by the public on a **WHITE** or **YELLOW** Application Form if you, or any person(s) for whose benefit you are applying, are an individual, and:

- (a) are 18 years of age or older;
- (b) have a Hong Kong address;
- (c) are not inside the United States (as defined in Regulation S) when completing and submitting the Application Form and are not a person described in paragraph (h)(3) of Rule 902 of Regulation S; and
- (d) are not a legal or natural person of the PRC (except qualified domestic institutional investors).

If you wish to apply for Hong Kong Offer Shares online through the **HK eIPO White Form**, in addition to the above you must also:

- (a) have a valid Hong Kong identity card number; and
- (b) be willing to provide a valid e-mail address and a contact telephone number.

You may only apply by means of the **HK eIPO White Form** service by submitting an **electronic application instruction** through the designated website at www.hkeipo.hk if you are an individual applicant. Corporations or joint applicants may not apply by means of the **HK eIPO White Form** service.

If the applicant is a firm, the application must be in the names of the individual members, not in the name of the firm. If the applicant is a body corporate, the application must be stamped with the company chop (bearing the company name) and signed by a duly authorised officer, who must state his or her representative capacity.

If an application is made by a person duly authorised under a valid power of attorney, the Company, the Sole Global Coordinator, the Hong Kong Underwriters (or their respective agents or nominees) may accept it at their discretion, and subject to any conditions as they think fit, including production of evidence of the authority of the attorney.

The number of joint applicants may not exceed four.

We, the Sole Global Coordinator or the **HK eIPO White Form** Service Provider (where applicable) in their capacity as our agent, will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

The Hong Kong Offer Shares are not available to existing beneficial owners of Shares, the Directors or chief executive of our Company or their respective associates or any other Connected Persons of our Company or persons who will become our Connected Persons immediately upon completion of the Global Offering.

You may apply for Offer Shares under the Hong Kong Public Offering or indicate an interest for International Offer Shares under the International Offering, but may not do both (except in respect of the Reserved Shares applied for pursuant to the Preferential Offering).

2. Methods of applying for the Hong Kong Offer Shares

There are four ways to make an application for the Hong Kong Offer Shares:

- (a) You may apply for the Hong Kong Offer Shares by using a **WHITE** Application Form. Use a **WHITE** Application Form if you want the Hong Kong Offer Shares issued in your own name;
- (b) Instead of using a **WHITE** Application Form, you may apply for the Hong Kong Offer Shares by means of the **HK eIPO White Form** service by submitting an **electronic application instruction** through the designated website at www.hkeipo.hk if you want the Hong Kong Offer Shares issued in your own name;
- (c) You may apply for the Hong Kong Offer Shares by using a **YELLOW** Application Form. Use a **YELLOW** Application Form if you want the Hong Kong Offer Shares issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account; or
- (d) Instead of using a **YELLOW** Application Form, you may give **electronic application instructions** to HKSCC to cause HKSCC Nominees to apply for the Hong Kong Offer Shares on your behalf. Any Hong Kong Offer Shares allocated to you will be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participants stock account or your designated CCASS Participant's stock account.

Except where you are a nominee and provide the required information in your application, you or your joint applicant(s) may not make more than one application (whether individually or jointly) by applying on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or applying online through the **HK eIPO White Form** Service Provider via the **HK eIPO White Form** service.

3. Where to collect the prospectus and Application Forms

You can collect a **WHITE** Application Form and a prospectus from any of the following addresses of the Hong Kong Underwriters:

BOCI Asia Limited
26th Floor, Bank of China Tower
1 Garden Road
Central, Hong Kong

HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

First Shanghai Securities Limited
19th Floor, Wing On House
71 Des Voeux Road Central
Central
Hong Kong

or any of the following branches of Bank of China (Hong Kong) Limited:

District	Branch Name	Branch Address
Hong Kong	Bank of China Tower Branch	3/F, 1 Garden Road
	409 Hennessy Road Branch	409-415 Hennessy Road, Wan Chai
	Taikoo Shing Branch	Shop G1006, Hoi Sing Mansion, Taikoo Shing
	Central District (Wing On House) Branch	71 Des Voeux Road Central
Kowloon	Kwun Tong Branch	20-24 Yue Man Square, Kwun Tong
	Humphrey's Avenue Branch	4-4A Humphrey's Avenue, Tsim Sha Tsui
	Mong Kok Branch	589 Nathan Road, Mong Kok
	Mei Foo Mount Sterling Mall Branch	Shop N47-49 Mount Sterling Mall, Mei Foo Sun Chuen
	Kowloon Plaza Branch	Unit 1, Kowloon Plaza , 485 Castle Peak Road
New Territories	Lucky Plaza Branch	Lucky Plaza, Wang Pok Street, Shatin
	Castle Peak Road (Tsuen Wan) Branch	201-207 Castle Peak Road, Tsuen Wan
	Sheung Shui Branch	61 San Fung Avenue, Sheung Shui

Prospectuses and **WHITE** Application Forms will be available for collection at the above places during the following times:

Friday, 10 September 2010 — 9:00 a.m. to 5:00 p.m.
Saturday, 11 September 2010 — 9:00 a.m. to 1:00 p.m.
Monday, 13 September 2010 — 9:00 a.m. to 5:00 p.m.
Tuesday, 14 September 2010 — 9:00 a.m. to 5:00 p.m.
Wednesday, 15 September 2010 — 9:00 a.m. to 12:00 noon

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 10 September 2010 until 12:00 noon on Wednesday, 15 September 2010, from the Depository Counter of HKSCC at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong or your stockbroker may also have Application Forms and this prospectus available.

4. How to apply by using a **WHITE** or **YELLOW** Application Form

- (a) Obtain an Application Form as described in the subsection headed "I. How to Apply for Hong Kong Offer Shares — 3. Where to collect the prospectus and Application Forms" above.

HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

- (b) Complete the Application Form in English in ink, and sign it. There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected and returned by ordinary post together with the accompanying cheque(s) or banker's cashier order(s) to you (or the first-named applicant in the case of joint applicants) at your own risk at the address stated in the Application Form.
- (c) Each Application Form must be accompanied by payment, in the form of either one cheque or one banker's cashier order made payable to "Bank of China (Hong Kong) Nominees Limited — Magic Holdings Public Offer". You should read the detailed instructions set out on the Application Form carefully, as an application is liable to be rejected if the cheque or banker's cashier order does not meet the requirements set out on the Application Form.
- (d) Lodge the Application Form in one of the collection boxes by the time and at one of the locations as described in the subsection headed "I. How to Apply for Hong Kong Offer Shares — 7. When may applications be made — (a) Applications on **WHITE** or **YELLOW** Application Forms" below.

In order for an application made on a **YELLOW** Application Form to be valid:

- (a) If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):
 - (i) the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box in the Application Form.
- (b) If you are applying as an individual CCASS Investor Participant:
 - (i) the Application Form must contain your name and Hong Kong identity card number; and
 - (ii) your participant I.D. must be inserted in the appropriate box in the Application Form.
- (c) If you are applying as a joint individual CCASS Investor Participant:
 - (i) the Application Form must contain names and Hong Kong identity card numbers of all joint CCASS Investor Participants; and
 - (ii) your participant I.D. must be inserted in the appropriate box in the Application Form.
- (d) If you are applying as a corporate CCASS Investor Participant:
 - (i) the Application Form must contain the company's name and its Hong Kong business registration number; and
 - (ii) your participant I.D. and your company chop (bearing your company's name) must be inserted in the appropriate box in the Application Form.

HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

Incorrect or incomplete details of the CCASS Participant or the omission or inadequacy of participant I.D. or other similar matters may render the application invalid.

5. How to apply through the HK eIPO White Form service

- (a) If you are an individual and meet the criteria set out in the subsection headed “I. How to Apply for Hong Kong Offer Shares — 1. Who can apply for the Hong Kong Offer Shares” above, you may apply through the **HK eIPO White Form** service by submitting an **electronic application instruction** through the designated website at www.hkeipo.hk. If you apply through the **HK eIPO White Form** service, the Shares will be issued in your own name.
- (b) Detailed instructions for application through the **HK eIPO White Form** service are set out on the designated website at www.hkeipo.hk. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the **HK eIPO White Form** Service Provider and may not be submitted to our Company.
- (c) In addition to the terms and conditions set out in this prospectus, the **HK eIPO White Form** Service Provider may impose additional terms and conditions upon you for the use of the **HK eIPO White Form** service. Such terms and conditions are set out on the designated website at www.hkeipo.hk. You will be required to read, understand and agree to such terms and conditions in full prior to making any application.
- (d) By submitting an application to the **HK eIPO White Form** Service Provider through the **HK eIPO White Form** service, you are deemed to have authorised the **HK eIPO White Form** Service Provider to transfer the details of your application to our Company and our Hong Kong Share Registrar.
- (e) You may submit an application through the **HK eIPO White Form** service in respect of a minimum of 1,000 Hong Kong Offer Shares. Each **electronic application instruction** in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at www.hkeipo.hk.
- (f) You should give **electronic application instructions** through the **HK eIPO White Form** service at the times set out in the subsection headed “I. How to Apply for Hong Kong Offer Shares — 7. When may applications be made — (b) **HK eIPO White Form**” below.
- (g) You should make payment for your application made through the **HK eIPO White Form** service in accordance with the methods and instructions set out in the designated website at www.hkeipo.hk. If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on Wednesday, 15 September 2010, or such later time as described under the subsection headed “I. How to Apply for Hong Kong Offer Shares — 7. When may applications be made — (e) Effect of bad weather conditions on the opening of the application lists” below, the **HK eIPO White Form** Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at www.hkeipo.hk.

HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

- (h) Warning: The application for Hong Kong Offer Shares through the **HK eIPO White Form** service is only a facility provided by the designated **HK eIPO White Form** Service Provider to public investors. Our Company, the Directors, the Sole Global Coordinator, the Sole Bookrunner, the Sole Sponsor and the Sole Lead Manager, and the Underwriters take no responsibility for any such applications and provide no assurance that applications through the **HK eIPO White Form** service will be submitted to our Company or that you will be allotted any Hong Kong Offer Shares.

Please note that internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the **HK eIPO White Form** service, you are advised not to wait until the last minute for submitting applications in the Hong Kong Public Offering to submit your **electronic application instructions**. In the event that you have problems connecting to the designated website at www.hkeipo.hk for the **HK eIPO White Form** service, you should submit a **WHITE** Application Form. However, once you have submitted **electronic application instructions** and completed payment in full using the application reference number provided to you on the designated website at www.hkeipo.hk, you will be deemed to have made an actual application and should not submit a **WHITE** or **YELLOW** Application Form or give **electronic application instructions** to HKSCC. Please refer to the subsection headed “I. How to Apply for Hong Kong Offer Shares — 8. How many applications may be made” below.

6. How to apply by giving electronic application instructions to HKSCC

(a) General

CCASS Participants may give **electronic application instructions** to HKSCC to apply for the Hong Kong Offer Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS phone system by calling 2979 7888 or through the CCASS internet system (<https://ip.ccass.com>) (using the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
2/F Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form.

Prospectuses will be available for collection at the above address.

HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** to HKSCC via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You are deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to our Company, the Sole Sponsor and our Hong Kong Share Registrar.

(b) Minimum Subscription Amount and Permitted Multiples

You may give **electronic application instructions** in respect of a minimum of 1,000 Hong Kong Offer Shares. Each **electronic application instruction** in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms.

(c) Warning

The subscription for the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Our Company, the Directors, the Sole Global Coordinator and the Underwriters take no responsibility for any such applications and provide no assurance that any CCASS Participant will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS phone system or the CCASS internet system, CCASS Investor Participants are advised not to wait until the last minute to input their **electronic application instructions**. In the event that CCASS Investor Participants have problems connecting to the CCASS phone system or the CCASS internet system to submit their **electronic application instructions**, they should either:

- (i) submit a **WHITE** or **YELLOW** Application Form; or
- (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Wednesday, 15 September 2010, or such later time as described under the subsection headed "I. How to Apply for Hong Kong Offer Shares — 7. When may applications be made — (e) Effect of bad weather conditions on the opening of the application lists" below.

HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

7. When may applications be made

(a) Applications on WHITE or YELLOW Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with payment attached, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed in the subsection headed “I. How to Apply for Hong Kong Offer Shares — 3. Where to collect the prospectus and Application Forms” above at the following times:

Friday, 10 September 2010 — 9:00 a.m. to 5:00 p.m.
Saturday, 11 September 2010 — 9:00 a.m. to 1:00 p.m.
Monday, 13 September 2010 — 9:00 a.m. to 5:00 p.m.
Tuesday, 14 September 2010 — 9:00 a.m. to 5:00 p.m.
Wednesday, 15 September 2010 — 9:00 a.m. to 12:00 noon

Completed **WHITE** or **YELLOW** Application Forms, together with payment attached, must be lodged by 12:00 noon on Wednesday, 15 September 2010, or, if the application lists are not open on that day, then by the time and date stated in the subsection headed “I. How to Apply for Hong Kong Offer Shares — 7. When may applications be made — (e) Effect of bad weather conditions on the opening of the application lists” below.

(b) HK eIPO White Form

You may submit your application to the **HK eIPO White Form** Service Provider through the designated website at www.hkeipo.hk from 9:00 a.m. on Friday, 10 September 2010, until 11:30 a.m. on Wednesday, 15 September 2010, or such later time as described under the subsection headed “I. How to Apply for Hong Kong Offer Shares — 7. When may applications be made — (e) Effect of bad weather conditions on the opening of the application lists” below (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Wednesday, 15 September 2010, the last application day, or, if the application lists are not open on that day, then by the time and date stated in the subsection headed “I. How to Apply for Hong Kong Offer Shares — 7. When may applications be made — (e) Effect of bad weather conditions on the opening of the application lists” below.

You will not be permitted to submit your application to the **HK eIPO White Form** Service Provider through the designated website at www.hkeipo.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

(c) *Electronic Application Instructions to HKSCC via CCASS*

CCASS Clearing or Custodian Participants should input electronic application instructions at the following times on the following dates:

- Friday, 10 September 2010 — 9:00 a.m. to 8:30 p.m. ⁽¹⁾**
- Saturday, 11 September 2010 — 8:00 a.m. to 1:00 p.m. ⁽¹⁾**
- Monday, 13 September 2010 — 8:00 a.m. to 8:30 p.m. ⁽¹⁾**
- Tuesday, 14 September 2010 — 8:00 a.m. to 8:30 p.m. ⁽¹⁾**
- Wednesday, 15 September 2010 — 8:00 a.m. ⁽¹⁾ to 12:00 noon**

⁽¹⁾ *These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing or Custodian Participants.*

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Friday, 10 September 2010, until 12:00 noon on Wednesday, 15 September 2010 (24 hours daily, except the last application day).

The latest time for inputting electronic application instructions will be 12:00 noon on Wednesday, 15 September 2010, the last application day, or if the application lists are not open on that day, by the time and date stated in the subsection headed “I. How to Apply for Hong Kong Offer Shares — 7. When may applications be made — (e) Effect of bad weather conditions on the opening of the application lists” below.

(d) *Application Lists*

The application lists will be open from 11:45 a.m. to 12:00 noon on Wednesday, 15 September 2010, except as provided in the subsection headed “I. How to Apply for Hong Kong Offer Shares — 7. When may applications be made — (e) Effect of bad weather conditions on the opening of the application lists” below.

Applicants should note that cheques or banker’s cashier orders will not be presented for payment before the closing of the application lists but may be presented at any time thereafter.

(e) *Effect of Bad Weather Conditions on the Opening of the Application Lists*

The application lists will not open if there is:

- (i) a tropical cyclone warning signal number 8 or above, or
- (ii) a “black” rainstorm warning signal,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 15 September 2010. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those signals in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon. For this purpose, “**business day**” means a day that is not a Saturday, Sunday or a public holiday in Hong Kong.

HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

8. How many applications may be made

Multiple applications or suspected multiple applications are liable to be rejected.

You may make more than one application for the Hong Kong Offer Shares if you are a nominee, in which case you may make an application as a nominee by (i) giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Participant); or (ii) lodging more than one Application Form in your own name if each application is made on behalf of different beneficial owners. In the box on the Application Form marked “For nominees”, you must include:

- (a) an account number; or
- (b) some other identification code

for each beneficial owner or, in the case of joint beneficial owners, for each beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

If you are a Qualifying Hua Han Shareholder applying for Reserved Shares under the Preferential Offering on a **BLUE** Application Form, as beneficial owner, you may also make one application for Hong Kong Offer Shares either on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Investor Participant or act through a CCASS Clearing or Custodian Participant) or submit an application to the **HK eIPO White Form** Service Provider through the designated website at www.hkeipo.hk. However, in respect of any application for Hong Kong Offer Shares using the above-mentioned methods, you will not enjoy any preferential treatment accorded to you under the Preferential Offering as described in the subsection headed “Structure of the Global Offering — The Preferential Offering” in this prospectus.

Otherwise, multiple applications are not allowed.

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit to the **HK eIPO White Form** Service Provider to make an application for the Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** through the **HK eIPO White Form** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service by giving more than one **electronic application instruction** through the designated website at www.hkeipo.hk and completing payment in respect of such **electronic application instructions**, or of submitting one application through the **HK eIPO White Form** service and one or more applications by any other means (other than an application (if any) made on a **BLUE** Application Form in the capacity as a Qualifying Hua Han Shareholder), all of your applications are liable to be rejected.

HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

If you have made an application by giving **electronic application instructions** to HKSCC and you are suspected of having made multiple applications or if more than one application is made for your benefit (other than an application (if any) made on a **BLUE** Application Form in the capacity as a Qualifying Hua Han Shareholder), the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purpose of considering whether multiple applications have been made. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

For further information, you should read the subsection headed “Further Terms and Conditions of Hong Kong Public Offering and Preferential Offering — 5. Multiple Applications” in this prospectus.

II. HOW TO APPLY FOR RESERVED SHARES

1. Who can apply for the Reserved Shares

Qualifying Hua Han Shareholders are entitled to apply on the basis of an Assured Entitlement of 20 Reserved Shares for every integral multiple of 4,000 Hua Han Shares held by them as at 5:00 p.m. on the Record Date.

You may apply for the Reserved Shares if you, or any person(s) for whose benefit you are applying are a Qualifying Hua Han Shareholder, are an individual and:

- (a) are 18 years of age or older;
- (b) have a Hong Kong address;
- (c) are not inside the United States (as defined in Regulation S when completing and submitting the Application Form and are not a person described in paragraph (h)(3) of Rule 902 of Regulation S); and
- (d) are not a legal or natural person of the PRC (except qualified domestic institutional investors).

If the applicant is a firm, the application must be in the names of the individual members, not in the name of the firm. If the applicant is a body corporate, the application must be stamped with the company chop (bearing the company name) and signed by a duly authorised officer, who must state his or her representative capacity.

If an application is made by a person duly authorised under a valid power of attorney, the Sole Global Coordinator (or their respective agents or nominees) may accept it at their discretion, and subject to any conditions as they think fit, including production of evidence of the authority of the attorney.

HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

The Reserved Shares are not available to existing beneficial owners of Shares, the Directors or chief executive of our Company or their respective associates or any other Connected Persons of our Company or persons who will become our Connected Persons immediately upon completion of the Global Offering.

2. Method of applying for the Reserved Shares

An application for Reserved Shares under the Preferential Offering may only be made by Qualifying Hua Han Shareholders using a **BLUE** Application Form which is being despatched to Qualifying Hua Han Shareholders by our Company. Using the **BLUE** Application Form, Qualifying Hua Han Shareholders may apply on an assured basis for a number of Reserved Shares less than or equal to their Assured Entitlement, which will be specified on their individual **BLUE** Application Form. Qualifying Hua Han Shareholders may also apply for a number of Reserved Shares in excess of their Assured Entitlement specified on their individual **BLUE** Application Form.

A valid application for a number of Reserved Shares equal to or less than a Qualifying Hua Han Shareholder's Assured Entitlement will be accepted in full, subject to the terms and conditions set out in this prospectus and on the **BLUE** Application Form assuming that the conditions of the Preferential Offering are satisfied. If an application is made for a number of Reserved Shares greater than the Assured Entitlement of a Qualifying Hua Han Shareholder, the Assured Entitlement will be satisfied in full, subject as mentioned above, but the excess portion of such application will only be met to the extent that there are sufficient available Reserved Shares resulting from other Qualifying Hua Han Shareholders with an Assured Entitlement declining to take up all or some of their Assured Entitlements. The Sole Bookrunner, on behalf of the Underwriters, will allocate any Reserved Shares not taken up by the Qualifying Hua Han Shareholders first to satisfy the excess applications for the Reserved Shares from other Qualifying Hua Han Shareholders on a fair and reasonable basis and may give preference to topping-up odd lots to whole board lots, and thereafter, at the discretion of the Sole Bookrunner, to other investors in the International Offering. The Qualifying Hua Han Shareholders should note that the Board will regard any nominee company (including HKSCC Nominees Limited) as a single Shareholder according to the register of members of the Company. Accordingly, the Qualifying Hua Han Shareholders should note that the aforesaid arrangement in relation to the allocation of the excess Reserved Shares on the basis of the top-up arrangement will not be extended to beneficial owners individually. Save for the above, the Preferential Offering will not be subject to the clawback arrangement between the International Offering and the Hong Kong Public Offering. If an application is made for a number of Reserved Shares less than the Assured Entitlement of a Qualifying Hua Han Shareholder, the applicant is recommended to apply for a number in one of the multiples of full board lots stated in the table of multiples and payments on the back page of the **BLUE** Application Form which also states the amount of remittance payable on application for each multiple of full board lots of Reserved Shares. If such applicant does not follow this recommendation when applying for less than the Assured Entitlement, he/she/it must calculate the correct amount of remittance payable on application for the number of Reserved Shares applied for by using the formula set out below the table of multiples and payments on the back page of the **BLUE** Application Form. Any application not accompanied by the correct amount of application monies will be treated as invalid in its entirety and no Reserved Share will be allotted to such applicant. The Sole Bookrunners, on behalf of the Underwriters, will allocate any Assured Entitlements not taken up by Qualifying Hua Han Shareholders to the International Offering.

HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

Qualifying Hua Han Shareholders who have applied for Reserved Shares under the Preferential Offering on a **BLUE** Application Form, as beneficial owner, may also make one application either on a **WHITE** or **YELLOW** Application Form, or by giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Investor Participant or act through a CCASS Clearing or Custodian Participant) or through the **HK eIPO White Form** service for the Hong Kong Offer Shares in the Hong Kong Public Offering. However, Qualifying Hua Han Shareholders will receive no preference as to entitlement or allocation in respect of applications for Hong Kong Offer Shares made on **WHITE** or **YELLOW** Application Forms or by giving **electronic application instructions** to HKSCC or through the **HK eIPO White Form** Service Provider under the Hong Kong Public Offering.

3. Despatch of the prospectus and BLUE Application Forms

A **BLUE** Application Form, together with a copy of this prospectus, are being despatched to you by our Company if you are a Qualifying Hua Han Shareholder with an Assured Entitlement to your address recorded on Hua Han's register of members as at 5:00 p.m. on the Record Date. Persons who held their Hua Han Shares as at 5:00 p.m. on the Record Date in CCASS indirectly through a broker or custodian, and wish to participate in the Preferential Offering, should instruct the broker or custodian to apply for the Reserved Shares on their behalf no later than the deadline set by HKSCC or HKSCC Nominees. In order to meet the deadline set by HKSCC, such persons should check with their broker/custodian for the timing on the processing of their instructions, and submit their instructions to their broker/custodian as required by them. Persons who held their Hua Han Shares as at 5:00 p.m. on the Record Date in CCASS directly as a CCASS Investor Participant, and wish to participate in the Preferential Offering, should give their instruction to HKSCC via the CCASS Phone System or CCASS Internet System no later than the deadline set by HKSCC or HKSCC Nominees. Qualifying Hua Han Shareholders who require a replacement **BLUE** Application Form should contact Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

4. How to apply by using a BLUE Application Form

- (a) Complete the **BLUE** Application Form in English in ink, and sign it. There are detailed instructions on each **BLUE** Application Form. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected and returned by ordinary post together with the accompanying cheque(s) or banker's cashier order(s) to you (or the first-named applicant in the case of joint applicants) at your own risk at the address stated in the **BLUE** Application Form.
- (b) Each **BLUE** Application Form must be accompanied by payment, in the form of either one cheque or one banker's cashier order made payable to "Bank of China (Hong Kong) Nominees Limited — Magic Holdings Preferential Offer". You should read the detailed instructions set out on the Application Form carefully, as an application is liable to be rejected if the cheque or banker's cashier order does not meet the requirements set out on the Application Form.
- (c) Lodge the **BLUE** Application Form in one of the collection boxes by the time and at one of the locations as described in the subsection headed "II. How to Apply for Reserved Shares — 5. When may applications be made" below.

HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

5. When may applications be made

(a) Applications on BLUE Application Forms

Your completed **BLUE** Application Form, together with payment attached, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed in the subsection headed “I. How to Apply for Hong Kong Offer Shares — 3. Where to collect the prospectus and Application Forms” above or at Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong at the following times:

Friday, 10 September 2010 — 9:00 a.m. to 5:00 p.m.
Saturday, 11 September 2010 — 9:00 a.m. to 1:00 p.m.
Monday, 13 September 2010 — 9:00 a.m. to 5:00 p.m.
Tuesday, 14 September 2010 — 9:00 a.m. to 5:00 p.m.
Wednesday, 15 September 2010 — 9:00 a.m. to 12:00 noon

Completed **BLUE** Application Forms, together with payment attached, must be lodged by 12:00 noon on Wednesday, 15 September 2010, or, if the application lists are not open on that day, then by the time and date stated in the subsection headed “II. How to Apply for Reserved Shares — 5. When may applications be made — (c) Effect of bad weather conditions on the opening of the application lists” below.

(b) Application lists

The application lists will be open from 11:45 am, to 12:00 noon on Wednesday, 15 September 2010, except as provided in the subsection headed “II. How to Apply for Reserved Shares — 5. When may Applications be made — (c) Effect of bad weather conditions on the opening of the application lists” below.

Applicants should note that cheques or banker’s cashier orders will not be presented for payment before the closing of the application lists but may be presented at any time thereafter.

(c) Effect of bad weather conditions on the opening of the application lists

The application lists will not open if there is:

- (i) a tropical cyclone warning signal number 8 or above, or
- (ii) a “black” rainstorm warning signal,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 15 September 2010. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those signals in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon. For this purpose, “**business day**” means a day that is not a Saturday, Sunday or a public holiday in Hong Kong.

HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

6. How many applications may be made

You should see the subsection headed “I. How to Apply for Hong Kong Offer Shares — 8. How many applications may be made” above for the situations where you may make more than one application for Hong Kong Offer Shares.

III. HOW MUCH ARE THE HONG KONG OFFER SHARES AND RESERVED SHARES

The maximum Offer Price is HK\$3.30 per Share. You must also pay brokerage of 1.0%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%. This means that for every board lot of 1,000 Shares you will pay HK\$3,333.30. The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for numbers of Shares applied for up to 10,000,000 Shares. The **BLUE** Application Form has a table showing the exact amount payable for multiples of Shares applied for.

If the Offer Price as finally determined is less than HK\$3.30 per Share, appropriate refund payments (including brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Details of the procedure for refund are set out below in the subsection headed “IV. Publication of Results, Despatch/Collection of Share Certificates and Refunds of Application Monies”.

You must pay the maximum Offer Price and related brokerage, SFC transaction levy and the Stock Exchange trading fee in full when you apply for the Hong Kong Offer Shares and the Reserved Shares. You must pay the amount payable upon application for the Hong Kong Offer Shares and the Reserved Shares by a cheque or a banker’s cashier order in accordance with the terms set out in the Application Forms. Any application not accompanied by the correct amount of application monies will be treated as invalid in its entirety and no Hong Kong Offer Shares and/or Reserved Shares will be allotted to such applicant.

If your application is successful, brokerage is paid to participants of the Stock Exchange (or the Stock Exchange, as the case may be), the Stock Exchange trading fee is paid to the Stock Exchange, and the SFC transaction levy is paid to the SFC.

IV. PUBLICATION OF RESULTS, DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUNDS OF APPLICATION MONIES

It is expected that the final Offer Price, the level of indications of interest in the International Offering, the results of applications and the basis of allotment of the Hong Kong Offer Shares and the Reserved Shares will be published on 22 September 2010, in The Standard (in English) and the Hong Kong Economic Times (in Chinese), on the website of the Stock Exchange at www.hkexnews.hk and on the website of the Company at www.magicholdings.co.

HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering and the Preferential Offering will be available at the times and date and in the manner specified below:

- (a) Results of allocations for the Hong Kong Public Offering and the Preferential Offering can be found in the Company's announcement to be posted on the Company's website at www.magicholdings.co and on the website of the Stock Exchange at www.hkexnews.hk on Wednesday, 22 September 2010;
- (b) Results of allocations for the Hong Kong Public Offering and the Preferential Offering will be available from our designated results of allocations website at www.tricor.com.hk/ipo/result (a hyperlink to which can also be found on the Company's website at www.magicholdings.co) on a 24-hour basis from 8:00 a.m. on Wednesday, 22 September 2010 to 12:00 midnight on Wednesday, 29 September 2010. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration number provided in his/her/its application form to search for his/her/its own allocation result;
- (c) Results of allocations will be available from our Hong Kong Public Offering allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Hong Kong Offer Shares allocated to them, if any, by calling 369-18-488 between 9:00 a.m. and 6:00 p.m. from Wednesday, 22 September 2010 to Tuesday, 28 September 2010 (excluding Saturday, Sunday and public holiday);
- (d) Special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual branches and sub-branches from Wednesday, 22 September 2010 to Monday, 27 September 2010 at all the receiving bank branches and sub-branches at the addresses set out in the subsection headed "I. How to Apply for Hong Kong Offer Shares — 3. Where to collect the prospectus and Application Forms" above.

You should note that our website, and all information contained on our website, does not form part of this prospectus.

Refund cheques for surplus application monies (if any) under **WHITE** or **YELLOW** or **BLUE** Application Forms and Share certificates for successful applicants under **WHITE** or **BLUE** Application Forms are expected to be posted and/or available for collection (as the case may be) on or around Wednesday, 22 September 2010.

Share certificates will only become valid certificates of title at 8:00 am. on Friday, 24 September 2010, provided that the Hong Kong Public Offering and the Preferential Offering have become unconditional in all respects and the right of termination under the Underwriting Agreement as described in the subsection headed "Underwriting — Underwriting Arrangements and Expenses — Grounds for termination" has not been exercised. Investors who trade Shares prior to the receipt of Share certificates or prior to the Share certificates becoming valid certificates of title do so entirely at their own risk.

HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

For further information on arrangements for the despatch/collection of Share certificates and refunds of application monies, you should refer to the subsections headed “Further Terms and Conditions of Hong Kong Public Offering and Preferential Offering — 7. If Your Application for Hong Kong Offer Shares and/or Reserved Shares is Successful (in Whole or in Part)” and “Further Terms and Conditions of Hong Kong Public Offering and Preferential Offering — 8. Refund of Application Monies” in this prospectus.

V. COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Stock Exchange are expected to commence on Friday, 24 September 2010. The Shares will be traded in board lots of 1,000 Shares.

Shares will be eligible for CCASS

Subject to the granting of the listing of, and permission to deal in, the Shares on the Stock Exchange as well as the compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or on any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

FURTHER TERMS AND CONDITIONS OF HONG KONG PUBLIC OFFERING AND PREFERENTIAL OFFERING

1. GENERAL

- (a) If you apply for the Hong Kong Offer Shares in the Hong Kong Public Offering and/or the Reserved Shares in the Preferential Offering, you will be agreeing with our Company and the Sole Global Coordinator (for themselves and on behalf of the Underwriters) as set out below.
- (b) If you give **electronic application instructions** to HKSCC via CCASS to cause HKSCC Nominees to apply for Hong Kong Offer Shares on your behalf, you will have authorised HKSCC Nominees to apply on the terms and conditions set out below, as supplemented and amended by the terms and conditions applicable to the relevant application method.
- (c) If you give **electronic application instructions** through the designated website at www.hkeipo.hk, you will have authorised the **HK eIPO White Form** Service Provider to apply on the terms and conditions set out below, as supplemented and amended by the terms and conditions applicable to the **HK eIPO White Form** service.
- (d) In this section, references to “you”, “applicants”, “joint applicants” and other like references shall, if the context so permits, include references to making applications electronically by submitting an application to the **HK eIPO White Form** Service Provider through the designated website for the **HK eIPO White Form** service and both nominees and principals on whose behalf HKSCC Nominees is applying for the Hong Kong Offer Shares, and references to the making of an application shall, if the context so permits, include references to making applications electronically by giving instructions to HKSCC.
- (e) Applicants should read this prospectus carefully, including the terms and conditions set out herein and in the Application Forms or imposed by HKSCC prior to making any application for the Hong Kong Offer Shares and/or the Reserved Shares.

2. OFFER TO PURCHASE THE HONG KONG OFFER SHARES AND RESERVED SHARES

- (a) You offer to purchase from our Company at the Offer Price the number of the Hong Kong Offer Shares and/or the Reserved Shares indicated in your Application Form (or any smaller number in respect of which your application is accepted) on the terms and conditions set out in this prospectus and the relevant Application Form.
- (b) For applicants using Application Forms, a refund cheque in respect of the surplus application monies (if any) representing the Hong Kong Offer Shares and/or the Reserved Shares applied for but not allocated to you and representing the difference (if any) between the final Offer Price and the maximum Offer Price (including the brokerage, SFC transaction levy and Stock Exchange trading fee attributable thereto), is expected to be sent to you by ordinary post at your own risk to the address stated on your Application Form on or before Wednesday, 22 September 2010. Details of the procedure for refunds relating to each of the Hong Kong Public Offering and the Preferential Offering methods are contained below in the subsections headed “7. If Your Application for Hong Kong Offer Shares and/or Reserved Shares is Successful (in Whole or in Part)”, “8. Refund of Application Monies” and “9. Additional Information for Applicants Applying by Giving Electronic Application Instructions” in this section.

FURTHER TERMS AND CONDITIONS OF HONG KONG PUBLIC OFFERING AND PREFERENTIAL OFFERING

- (c) Any application may be rejected in whole or in part.
- (d) Applicants under the Hong Kong Public Offering and the Preferential Offering should note that in no circumstances (save for those provided under section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance)) can applications be withdrawn once submitted. For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives, or causes to give, **electronic application instructions** to HKSCC via CCASS is a person who may be entitled to compensation under section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance).

3. ACCEPTANCE OF YOUR OFFER

- (a) The Hong Kong Offer Shares and the Reserved Shares will be allocated after the application lists close. We expect to announce the final number of Hong Kong Offer Shares and the Reserved Shares, the level of applications under the Hong Kong Public Offering and the Preferential Offering and the basis of allocations of the Hong Kong Offer Shares and the Reserved Shares on Wednesday, 22 September 2010. Please refer to the section headed “How to Apply for Hong Kong Offer Shares and Reserved Shares — IV. Publication of Results, Despatch/Collection of Share Certificates and Refunds of Application Monies” in this prospectus for details.
- (b) The results of allocations of the Hong Kong Offer Shares under the Hong Kong Public Offering and the Reserved Shares under the Preferential Offering, including the Hong Kong identity card numbers, passport numbers or Hong Kong business registration numbers (where applicable) of successful applicants and the number of the Hong Kong Offer Shares and the Reserved Shares successfully applied for, will be made available on Wednesday, 22 September 2010, in the manner described in the subsection headed “How to Apply for Hong Kong Offer Shares and Reserved Shares — IV. Publication of Results, Despatch/Collection of Share Certificates and Refunds of Application Monies” in this prospectus.
- (c) We may accept your offer to purchase (if your application is received, valid, processed and not rejected) by announcing the basis of allocations and/or making available the results of allocations publicly.
- (d) If we accept your offer to purchase (in whole or in part), there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares and/or the Reserved Shares in respect of which your offer has been accepted if the conditions of the Global Offering are satisfied or the Global Offering is not otherwise terminated. Further details are contained in the section headed “Structure of the Global Offering” in this prospectus.
- (e) You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

FURTHER TERMS AND CONDITIONS OF HONG KONG PUBLIC OFFERING AND PREFERENTIAL OFFERING

4. EFFECT OF MAKING ANY APPLICATION

- (a) By completing and submitting any Application Form, you (and if you are joint applicants, each of you jointly and severally) for yourself or as agent or nominee and on behalf of each person for whom you act as agent or nominee:
- (i) **instruct** and **authorise** our Company and/or the Sole Global Coordinator (or their respective agents or nominees), acting as an agent of our Company, to execute any transfer forms, contract notes or other documents on your behalf and to do on your behalf all other things necessary to effect the registration of any Offer Shares allocated to you in your name(s) or the name of HKSCC Nominees, as the case may be, as required by the Articles and otherwise to give effect to the arrangements described in this prospectus and the relevant Application Form;
 - (ii) **undertake** to sign all documents and to do all things necessary to enable you or HKSCC Nominees, as the case may be, to be registered as the holder of the Offer Shares allocated to you, and as required by the Articles;
 - (iii) **represent, warrant** and **undertake** that you are not, and none of the other person(s) for whose benefit you are applying is, within the United States (as defined in Regulation S) and will acquire the Hong Kong Offer Shares and/or the Reserved Shares in an offshore transaction (within the meaning of Regulation S);
 - (iv) **confirm** that you have received a copy of this prospectus and have only relied on the information and representations contained in this prospectus in making your application, and not on any other information or representation concerning our Company save as set out in any supplement to this prospectus and you agree that neither our Company, the Sole Global Coordinator and the Hong Kong Underwriters nor any of their respective directors, officers, employees, partners, agents, advisers or any other parties involved in the Global Offering will have any liability for any such other information or representations;
 - (v) **agree** (without prejudice to any other rights which you may have) that once your application has been accepted, you may not rescind it due to an innocent misrepresentation;
 - (vi) (if the application is made for your own benefit) **warrant** that the application is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider via the **HK eIPO White Form** service;

FURTHER TERMS AND CONDITIONS OF HONG KONG PUBLIC OFFERING AND PREFERENTIAL OFFERING

- (vii) (if the application is made by an agent on your behalf) **warrant** that you have validly and irrevocably conferred on your agent all necessary power and authority to make the application;
- (viii) (if you are an agent for another person) **warrant** that reasonable inquiries have been made of that other person that the application is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider via the **HK eIPO White Form** service, and that you are duly authorised to sign the Application Form or to give **electronic application instructions** as that other person's agent;
- (ix) **agree** that once your application is accepted, your application will be evidenced by the results of the Hong Kong Public Offering and the Preferential Offering made available by our Company;
- (x) **undertake** and **confirm** that you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for, taken up or indicated an interest in, or received or been placed or allocated (including conditionally and/or provisionally) and will not apply for or take up or indicate any interest in any International Offer Shares in the International Offering, nor otherwise participate in the International Offering (except in respect of the Reserved Shares applied for pursuant to the Preferential Offering);
- (xi) **warrant** the truth and accuracy of the information contained in your application;
- (xii) **agree** to disclose to our Company, the Sole Global Coordinator and their respective agents any information about you or the person(s) for whose benefit you have made the application which they require;
- (xiii) **agree** that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;
- (xiv) **undertake** and **agree** to accept the Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) **authorise** our Company to place your name(s) or HKSCC Nominees, as the case may be, on the Company's branch register of members as the holder(s) in Hong Kong of any Offer Shares allocated to you, and our Company and/or the Company's agents to send any Share certificate(s) (where applicable) and/or any refund cheque (where applicable) to you or (in case of joint applicants) the first-named applicant in the Application Form by ordinary post to the address stated on your Application Form at your own risk (except if you have applied for 1,000,000 Hong Kong Offer Shares or more or 1,000,000 Reserved Shares or more, as the case may be, and have indicated in your Application Form that you wish to collect your refund cheque and/or Share certificates (where applicable) in person);

FURTHER TERMS AND CONDITIONS OF HONG KONG PUBLIC OFFERING AND PREFERENTIAL OFFERING

- (xvi) **agree** that the processing of your application, including the despatch of refund cheque(s) (if any), may be done by any of our Company's receiving banker and is not restricted to the bank at which your Application Form is lodged;
- (xvii) **confirm** that you are aware of the restrictions on the Global Offering of the Offer Shares described in this prospectus;
- (xviii) **understand** that these declarations and representations will be relied upon by our Company and the Sole Global Coordinator in deciding whether or not to allocate any Offer Shares in response to your application;
- (xix) if the laws of any place outside Hong Kong are applicable to your application, you **agree** and **warrant** that you have complied with all such laws and none of our Company, the Sole Global Coordinator and the Underwriters, nor any of their respective officers or advisers will infringe any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any actions arising from your rights and obligations under the terms and conditions contained in this prospectus;
- (xx) **agree** with our Company, for itself and for the benefit of each shareholder of our Company (and so that our Company will be deemed by its acceptance in whole or in part of the application to have agreed, for itself and on behalf of each shareholder of our Company) (and if applicable, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Law, the Memorandum and the Articles;
- (xxi) **agree** with our Company and each Shareholder of our Company, and our Company agrees with each of our Company's shareholders, to observe and comply with the Companies Law, the Memorandum and the Articles;
- (xxii) **agree** with the Company and each Shareholder of our Company that the Shares in our Company are freely transferable by the holder thereof;
- (xxiii) **agree** that our Company, the Sole Global Coordinator, the Hong Kong Underwriters and any of their respective directors, officers, employees, partners, agents or advisers, and any other parties involved in the Global Offering are liable only for the information and representations contained in this prospectus and any supplement to this prospectus (and only then to the extent such liability is held to exist by a court with competent jurisdiction); and
- (xxiv) **agree** to disclose to our Company, the Company's registrar, the receiving banker, the Sole Global Coordinator and their respective advisers and agents any personal data and any other information which they require about you or the person(s) for whose benefit you have made the application.

FURTHER TERMS AND CONDITIONS OF HONG KONG PUBLIC OFFERING AND PREFERENTIAL OFFERING

- (b) If you apply for the Hong Kong Offer Shares using a **YELLOW** Application Form, in addition to the confirmations and agreements referred to in (a) above, you (and if you are joint applicants, each of you jointly and severally) for yourself or as agent or nominee and on behalf of each person for whom you act as agent or nominee agree that:
- (i) any Hong Kong Offer Shares allocated to you shall be registered in the name of HKSCC Nominees and deposited directly into CCASS operated by HKSCC for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant in accordance with your election on the Application Form;
 - (ii) each of HKSCC and HKSCC Nominees reserves the right (aa) not to accept any or part of such allotted Hong Kong Offer Shares issued in the name of HKSCC Nominees or not to accept such allotted Hong Kong Offer Shares for deposit into CCASS; (bb) to cause such allotted Hong Kong Offer Shares to be withdrawn from CCASS and transferred into your name (or, if you are a joint applicant, to the first-named applicant) at your own risk and costs; and (cc) to cause such allotted Hong Kong Offer Shares to be issued in your name (or, if you are a joint applicant, to the first-named applicant) and in such a case, to post the Share certificates for such allotted Hong Kong Offer Shares at your own risk to the address on your Application Form by ordinary post or to make available the same for your collection;
 - (iii) each of HKSCC and HKSCC Nominees may adjust the number of allotted Hong Kong Offer Shares issued in the name of HKSCC Nominees;
 - (iv) neither HKSCC nor HKSCC Nominees shall have any liability for the information and representations not so contained in this prospectus and the Application Form; and
 - (v) neither HKSCC nor HKSCC Nominees shall be liable to you in any way.
- (c) If you apply for the Reserved Shares using a **BLUE** Application Form, in addition to the confirmations and agreements referred to in (a) above, you (and if you are joint applicants, each of you jointly and severally) for yourself or as agent or nominee and on behalf of each person for whom you act as agent or nominee;
- (i) **warrant** that, in making an application, you or any person(s) on whose behalf you may be acting is/are Qualifying Hue Han Shareholder(s); and
 - (ii) **represent, warrant and undertake** that in making this application, you and/or any person(s) for whose behalf you may be acting are not Connected Person(s) or person(s) who will become Connected Person(s) of our Company immediately upon completion of the Global Offering, the subscription for Reserved Shares by you and/or any person(s) on whose behalf you may be acting is not financed directly or indirectly by a Connected Person of our Company, and you and/or any person(s) on whose behalf you may be acting is not taking instructions from a Connected Person of our Company in making this subscription for Reserved Shares.

FURTHER TERMS AND CONDITIONS OF HONG KONG PUBLIC OFFERING AND PREFERENTIAL OFFERING

- (d) In addition, by giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:
- (i) **instructed** and **authorised** HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
 - (ii) **instructed** and **authorised** HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or the Offer Price is less than the Offer Price per Share initially paid on application, refund of the application monies, in each case including brokerage, SFC transaction levy and Stock Exchange trading fee, by crediting your designated bank account;
 - (iii) (where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Hong Kong Offer Shares) HKSCC Nominees is only acting as nominee for the applicants and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus. In addition to the confirmations and agreements set out in paragraph (a) above, **instructed** and **authorised** HKSCC to cause HKSCC Nominees to do on your behalf all the things which it has stated to do on your behalf in the **WHITE** Application Form, and the following:
 - **agree** that the Hong Kong Offer Shares to be allocated shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has input **electronic application instructions** on your behalf or for your CCASS Investor Participant stock account;
 - **undertake** and **agree** to accept the Hong Kong Offer Shares in respect of which you have given **electronic application instructions** or any lesser number;
 - (if the **electronic application instructions** are given for your own benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
 - (if you are an agent for another person) **declare** that you have only given one set of **electronic application instructions** for the benefit of that other person and that you are duly authorised to give those instructions as that other person's agent;

FURTHER TERMS AND CONDITIONS OF HONG KONG PUBLIC OFFERING AND PREFERENTIAL OFFERING

- **understand** that the above declaration will be relied upon by our Company, the Directors and the Sole Global Coordinator in deciding whether or not to make any allotment of Hong Kong Offer Shares in respect of the **electronic application instructions** given by you and that you may be prosecuted if you make a false declaration;
- **authorise** our Company to place the name of HKSCC Nominees on the register of members of our Company as the holder of the Hong Kong Offer Shares allotted in respect of your **electronic application instructions** and to send Share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between our Company and HKSCC;
- **confirm** that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them; and are aware of the restrictions on the Hong Kong Public Offering described in this prospectus;
- **confirm** that you have only relied on the information and representations in this prospectus in giving your **electronic application instructions** or instructing your broker or custodian to give **electronic application instructions** on your behalf;
- **agree** (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentation;
- **agree** that any application made by HKSCC Nominees on behalf of you pursuant to the **electronic application instructions** given by you is irrevocable until after the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a Business Day), such agreement to take effect as a collateral contract with our Company and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that we will not offer any Hong Kong Offer Shares to any person on or before Sunday, 10 October 2010, except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a Business Day) if a person responsible for this prospectus under Section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;
- **agree** that once the application of HKSCC Nominees is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering published by our Company;

FURTHER TERMS AND CONDITIONS OF HONG KONG PUBLIC OFFERING AND PREFERENTIAL OFFERING

- **agree** to the arrangements, undertakings and warranties specified in the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to Hong Kong Offer Shares; and
 - **agree** with our Company, for itself and for the benefit of each of the Shareholders of our Company (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of our Shareholders of the Company, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Law, the Memorandum and the Articles.
- (e) Our Company, the Sole Global Coordinator, the Hong Kong Underwriters and their respective directors and any other parties involved in the Global Offering are entitled to rely on any warranty, representation or declaration made by you in your application.
- (f) In the event of this application being made by joint application, all the warranties, representations, declarations and obligations expressed to be made, given or assumed by or imposed on the joint applicants shall be deemed to have been made, given or assumed by or imposed on the applicants jointly and severally. You may be prosecuted if you make a false declaration.

5. MULTIPLE APPLICATIONS

- (a) It will be a term and condition of all applications that by completing and delivering an Application Form, you:
- (i) (if the application is made for your own benefit) **warrant** that the application is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider via the **HK eIPO White Form** service;
 - (ii) (if the application is made by an agent on your behalf) **warrant** that you have validly and irrevocably conferred on your agent all necessary power and authority to make the application; and
 - (iii) (if you are an agent for another person) **warrant** that reasonable inquiries have been made of that other person that the application is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider via the **HK eIPO White Form** service, and that you are duly authorised to sign the Application Form or to give **electronic application instructions** as that other person's agent.

FURTHER TERMS AND CONDITIONS OF HONG KONG PUBLIC OFFERING AND PREFERENTIAL OFFERING

- (b) Except where you are a nominee and provide the information required to be provided in your application, all of your applications (including the part of the application made by HKSCC Nominees Limited acting on **electronic application instructions**) will be rejected as multiple applications if you, or you and your joint applicant(s) together;
- (i) make more than one application (whether individually or jointly) on a **WHITE** and/or **YELLOW** Application Form and/or by giving **electronic application instructions** to HKSCC and/or to the **HK eIPO White Form** Service Provider via the **HK eIPO White Form** service;
 - (ii) apply both (whether individually or jointly) on one **WHITE** Application Form and one **YELLOW** Application Form or on one **WHITE** or **YELLOW** Application Form and give **electronic application instructions** to HKSCC or to **HK eIPO White Form** Service Provider via the **HK eIPO White Form** service;
 - (iii) apply (whether individually or jointly) on one **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider via the **HK eIPO White Form** service for more than 10,000,000 Hong Kong Offer Shares, being 50% of the Hong Kong Offer Shares initially made available for public subscription under the Hong Kong Public Offering as more particularly described in the subsection headed “Structure of the Global Offering — The Hong Kong Public Offering” in this prospectus; or
 - (iv) have applied for or taken up, or indicated an interest for, or have been or will be allocated or placed (including conditionally and/or provisionally) International Offer Shares under the International Offering (except in respect of the Reserved Shares applied for pursuant to the Preferential Offering).
- (c) All of your applications will also be rejected as multiple applications if more than one application is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions** but other than an application (if any) made on a **BLUE** Application Form in the capacity as a Qualifying Hua Han Shareholder). If an application is made by an unlisted company and
- (i) the principal business of that company is dealing in securities; and
 - (ii) you exercise statutory control over that company,

then the application will be treated as being made for your benefit.

“**Unlisted company**” means a company with no equity securities listed on the Stock Exchange.

FURTHER TERMS AND CONDITIONS OF HONG KONG PUBLIC OFFERING AND PREFERENTIAL OFFERING

“**Statutory control**” in relation to a company means you:

- control the composition of the board of directors of that company; or
- control more than half of the voting power of that company; or
- hold more than half of the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

6. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG OFFER SHARES OR RESERVED SHARES

You should note the following situations in which the Hong Kong Offer Shares and the Reserved Shares will not be allotted to you or your application is liable to be rejected:

(a) If your application is revoked

By completing and submitting an Application Form or **electronic application instruction** to HKSCC or to the **HK eIPO White Form** Service Provider via the **HK eIPO White Form** service, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a Business Day). This agreement will take effect as a collateral contract with our Company, and will become binding when you lodge your Application Form or submit your **electronic application instructions** to HKSCC and an application has been made by HKSCC Nominees on your behalf accordingly or to the **HK eIPO White Form** Service Provider via the **HK eIPO White Form** service. This collateral contract will be in consideration of our Company agreeing that we will not offer any Hong Kong Offer Shares to any person on or before Sunday, 10 October 2010, except by means of one of the procedures referred to in this prospectus.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a Business Day), if a person responsible for this prospectus under section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If any supplement to this prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) has/have not been so notified, or if applicant(s) has/have been notified but has/have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

FURTHER TERMS AND CONDITIONS OF HONG KONG PUBLIC OFFERING AND PREFERENTIAL OFFERING

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot, respectively.

(b) If our Company, the Sole Global Coordinator or their respective agents exercise their discretion to reject your application

Our Company, the Sole Global Coordinator (as agents of our Company) or their respective agents have full discretion to reject or accept any application, or to accept only part of any application without having to give any reasons for any rejection or acceptance.

(c) If the allotment of Hong Kong Offer Shares and/or the Reserved Shares is void

The allotment of Hong Kong Offer Shares and/or the Reserved Shares to you or to HKSCC Nominees (if you give **electronic application instructions** to HKSCC via CCASS or apply by a **YELLOW** Application Form) will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- (i) within three weeks from the closing of the application lists; or
- (ii) within a longer period of up to six weeks if the Listing Committee of the Stock Exchange notifies our Company of that longer period within three weeks of the closing date of the application lists.

(d) In the following circumstances

- (i) your application is a multiple or a suspected multiple application;
- (ii) the Application Form is not completed correctly;
- (iii) your payment is not made correctly or you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonored on its first presentation;
- (iv) you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allotted (including conditionally and/or provisionally) International Offer Shares in the International Offering (except in respect of the Reserved Shares applied for pursuant to the Preferential Offering). By filling in any of the Application Forms or giving **electronic application instructions** to HKSCC or the **HK eIPO White Form** Service Provider, you agree not to apply for the International Offer Shares in the International Offering (except in respect of the Reserved Shares applied for pursuant to the Preferential Offering). Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offering from investors who have received International Offer Shares in the International Offering

FURTHER TERMS AND CONDITIONS OF HONG KONG PUBLIC OFFERING AND PREFERENTIAL OFFERING

(except in respect of the Reserved Shares applied for pursuant to the Preferential Offering), and to identify and reject indications of interest in the International Offering (except in respect of the Reserved Shares applied for pursuant to the Preferential Offering) from investors who have received Hong Kong Offer Shares in the Hong Kong Public Offering;

- (v) our Company and the Sole Global Coordinator (on behalf of our Company) believe that the acceptance of your application would violate the applicable securities or other laws, rules or regulations of the jurisdiction in which your application is completed and/or signed or your address appeared in this Application Form is located;
- (vi) if you apply for more than 50% of the Hong Kong Offer Shares initially being offered in the public for subscription; or
- (vii) the Underwriting Agreement does not become unconditional or is terminated in accordance with the terms thereof.

7. IF YOUR APPLICATION FOR HONG KONG OFFER SHARES AND/OR RESERVED SHARES IS SUCCESSFUL (IN WHOLE OR IN PART)

No temporary document of title will be issued in respect of the Shares.

No receipt will be issued for sums paid on application.

You will receive one Share certificate for all of the Hong Kong Offer Shares issued to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS, in which case Share certificates will be deposited directly into CCASS) and one Share certificate for all of the Reserved Shares issued to you under the Preferential Offering.

Share certificates will only become valid certificates of title at 8:00 a.m. on Friday, 24 September 2010, provided that the Hong Kong Public Offering and the Preferential Offering have become unconditional in all respects and the right of termination under the Underwriting Agreement and described in the subsection of this prospectus headed “Underwriting — Underwriting Arrangements and Expenses — Grounds for termination” has not been exercised. Investors who trade Shares prior to the receipt of Share certificates or prior to the Share certificates becoming valid certificates of title do so entirely at their own risk.

(a) If you apply using a WHITE or BLUE Application Form:

If you apply for 1,000,000 Hong Kong Offer Shares or more on a **WHITE** Application Form or 1,000,000 Reserved Shares or more on a **BLUE** Application Form and have indicated your intention in your Application Form to collect your Share certificate(s) and/or refund cheque(s) (where relevant) in person from Tricor Investor Services Limited and have provided all information

FURTHER TERMS AND CONDITIONS OF HONG KONG PUBLIC OFFERING AND PREFERENTIAL OFFERING

required by your Application Form, you may collect it/them in person from Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, 22 September 2010 or such other dates as notified by our Company in the newspapers as the date of despatch/collection of Share certificate(s)/ refund cheque(s).

If you are an individual who opts for personal collection, you must not authorise any other person to make collection on your behalf. If you are a corporate applicant which opts for personal collection, your authorised representative must attend bearing a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Tricor Investor Services Limited.

If you do not collect your Share certificate(s) and/or refund cheque(s) (where relevant) in person within the time specified for collection, it/they will be despatched promptly to you by ordinary post to the address as specified in the Application Form at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares or 1,000,000 Reserved Shares or if you apply for 1,000,000 Hong Kong Offer Shares or 1,000,000 Reserved Shares or more but have not indicated on your Application Form that you will collect your Share certificate(s) and/or refund cheque(s) (where relevant) in person, your Share certificate(s) and/or refund cheque(s) (where relevant) will be despatched promptly to you by ordinary post to the address as specified in the Application Form at your own risk.

(b) If you apply using a YELLOW Application Form

If you apply for Hong Kong Offer Shares using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in the Application Form on Wednesday, 22 September 2010, or under certain contingent situations, on any other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant) on a **YELLOW** Application Form, for the Hong Kong Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allocated to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant, our Company expects to make available the results of the Hong Kong Public Offering, including the results of CCASS Investor Participants applications, in the manner described in the subsection headed "How to Apply for Hong Kong Offer Shares and Reserved Shares — IV. Publication of Results, Despatch/Collection of Share Certificates and Refunds of Application Monies" in this prospectus on Wednesday, 22 September 2010. You should check the results made available by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 22 September 2010 or such other date as shall be determined by HKSCC or HKSCC Nominees. Immediately following the credit of the Hong Kong

FURTHER TERMS AND CONDITIONS OF HONG KONG PUBLIC OFFERING AND PREFERENTIAL OFFERING

Offer Shares to your stock account, you can check your new account balance via the CCASS phone system and the CCASS internet system (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your stock account.

If you apply for 1,000,000 Hong Kong Offer Shares or more and you have elected on your **YELLOW** Application Form to collect your refund cheque(s) (if any) in person, you should follow the same procedure as those for **WHITE** Application Form applicants as described above. If you have applied for 1,000,000 Hong Kong Offer Shares or more and have not indicated on the Application Form that you will collect your refund cheque(s) (if any) in person, or if you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) (if any) will be despatched promptly to you by ordinary post to the address as specified in the Application Form at your own risk.

(c) If you apply through the HK eIPO White Form service

If you apply for 1,000,000 Hong Kong Offer Shares or more through the **HK eIPO White Form** service by submitting an **HK eIPO White Form** instruction to the **HK eIPO White Form** Service Provider through the designated website at www.hkeipo.hk and your application is wholly or partially successful, you may collect your Share certificate(s) and/or refund cheque(s) (where relevant) in person from Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, 22 September 2010, or such other dates as notified by our Company in the newspapers as the date of despatch/collection of Share certificate(s)/e-Auto Refund payment instructions/refund cheque(s).

If you do not collect your Share certificate(s) and/or refund cheque(s) in person within the time specified for collection, it/they will be despatched promptly to you by ordinary post to the address as specified in the application instructions to the **HK eIPO White Form** Service Provider through the designated website at www.hkeipo.hk at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) and/or refund cheque(s) (where relevant) will be despatched promptly to you by ordinary post to the address as specified in the application instructions to the **HK eIPO White Form** Service Provider through the designated website at www.hkeipo.hk at your own risk.

If you paid the application monies from a single bank account and your application is wholly or partially unsuccessful and/or the final Offer Price being different from the Offer Price initially paid on your application, e-Auto Refund payment instructions (if any) will be despatched to your application payment bank account on or about Wednesday, 22 September 2010.

If you used multiple bank accounts to pay the application monies and your application is wholly or partially unsuccessful and/or the final Offer Price being different from the Offer Price initially paid on your application, refund cheque(s) will be sent to the address specified in your application instructions to the designated **HK eIPO White Form** Service Provider on or about Wednesday, 22 September 2010 by ordinary post and at your own risk.

FURTHER TERMS AND CONDITIONS OF HONG KONG PUBLIC OFFERING AND PREFERENTIAL OFFERING

Please also note the additional information relating to refund of application monies overpaid, application money underpaid or applications rejected by the **HK eIPO White Form** Service Provider set out below in the subsection headed “8. Refund of Application Monies.”

8. REFUND OF APPLICATION MONIES

Your application monies, or the appropriate portion thereof, together with the related brokerage of 1.0%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%, will be refunded if:

- (a) your application is rejected, not accepted or accepted in part only or if you do not receive any Hong Kong Offer Shares and/or Reserved Shares for any of the reasons set out above in the subsection headed “6. Circumstances in which you will not be allotted Hong Kong Offer Shares or Reserved Shares”;
- (b) the Offer Price as finally determined is less than the Offer Price of HK\$3.30 per Share (excluding brokerage, SFC transaction levy and Stock Exchange trading fee thereon) paid on application;
- (c) the conditions of the Hong Kong Public Offering or the Preferential Offering are not fulfilled in accordance with the subsection headed “Structure of the Global Offering — Conditions of the Hong Kong Public Offering and the Preferential Offering” in this prospectus; or
- (d) any application is revoked or any allotment pursuant thereto has become void.

No interest will be paid thereon. All interest accrued on such monies prior to the date of refund will be retained for the benefit of our Company.

In a contingency situation involving a substantial over-subscription, at the discretion of our Company and the Sole Global Coordinator, cheques for applications for certain small denominations of Hong Kong Offer Shares (apart from successful and reserved applications) may not be cleared.

Refund of your application monies (if any) will be made on Wednesday, 22 September 2010 in accordance with the various arrangements as described above. All refunds will be made by a cheque crossed “Account Payee Only” made out to you, or if you are joint applicants, to the first-named applicant on the Application Form. Part of your Hong Kong identity card number or passport number, or, if you are joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong identity card number or passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number or passport number may lead to delay in encashment of or may invalidate your refund cheque. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

FURTHER TERMS AND CONDITIONS OF HONG KONG PUBLIC OFFERING AND PREFERENTIAL OFFERING

9. ADDITIONAL INFORMATION FOR APPLICANTS APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS

(a) Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instructions is given will be treated as an applicant.

(b) Deposit of share certificates into CCASS and refund of application monies

- (i) No temporary document of title will be issued. No receipt will be issued for paid sums on application.
- (ii) If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give **electronic application instructions** on your behalf or to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form on Wednesday, 22 September 2010, or, on such other date as shall be determined by HKSCC or HKSCC Nominees.
- (iii) Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner, if supplied), your Hong Kong identity card/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the newspapers on Wednesday, 22 September 2010. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 22 September 2010 or such other date as shall be determined by HKSCC or HKSCC Nominees.
- (iv) If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- (v) If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS phone system and the CCASS internet system (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Wednesday, 22 September 2010. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of the refund monies to your bank account. HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

FURTHER TERMS AND CONDITIONS OF HONG KONG PUBLIC OFFERING AND PREFERENTIAL OFFERING

- (vi) Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or a difference between the Offer Price and the Offer Price per Share initially paid on application, in each case including brokerage of 1.0%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, 22 September 2010. No interest will be paid thereon.

(c) Additional information for applicants applying through HK eIPO White Form

For the purposes of allocating Hong Kong Offer Shares, each applicant giving **electronic application instructions** through the **HK eIPO White Form** service to the **HK eIPO White Form** Service Provider through the designated website at www.hkeipo.hk will be treated as an applicant.

If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Hong Kong Offer Shares for which you have applied, or if your application is otherwise rejected by the designated **HK eIPO White Form** Service Provider, the designated **HK eIPO White Form** Service Provider may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the designated **HK eIPO White Form** Service Provider on the designated website at www.hkeipo.hk.

Otherwise, any monies payable to you due to a refund for any of the reasons set out above in the subsection headed “8. Refund of Application Monies” shall be made pursuant to the arrangements described above in the subsection headed “7. If your application for Hong Kong Offer Shares and/or Reserved Shares is Successful (in Whole or in Part) — (c) If you apply through **HK eIPO White Form**”.

10. PERSONAL DATA

The section of the Application Forms headed “Personal Data” applies to any personal data held by the Company, the Hong Kong Share Registrar, the receiving banker, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager, the Sole Sponsor, any of the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong. As described in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix VII to this prospectus, a copy of the following Accountants' Report is available for inspection.



18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

10 September 2010

The Board of Directors
Magic Holdings International Limited
BOCI Asia Limited

Dear Sirs,

We set out below our report on the financial information regarding Magic Holdings International Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 30 June 2007, 2008 and 2009 and the ten months ended 30 April 2010 (the "Relevant Periods") and the ten months ended 30 April 2009 (the "30 April 2009 Financial Information"), prepared on the bases of presentation and preparation set forth in Sections 2 and 3 below, for inclusion in the prospectus of the Company dated 10 September 2010 (the "Prospectus") in connection with the proposed listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was incorporated in the Cayman Islands on 9 February 2010 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation as more fully explained in the paragraph headed "Corporate reorganisation" in "Appendix VI — Statutory and general information" to the Prospectus (the "Reorganisation"), which was completed on 6 September 2010, the Company became the holding company of the subsidiaries now comprising the Group.

The Group is principally engaged in the manufacture and sale of facial mask and other skincare products. Except for the Company's subsidiaries established in the People's Republic of China which adopted 31 December as their financial year end date, the Company and its subsidiaries have adopted 30 June as their financial year end date. The particulars of the Company and its subsidiaries are set out in Section 2 below.

The combined income statements and statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Group for the Relevant Periods and the combined statements of financial position of the Group as at 30 June 2007, 2008, 2009 and 30 April 2010, together with the notes thereto set out in this report (the "Financial Information") have

been prepared based on the audited financial statements and, where appropriate, management accounts of the companies now comprising the Group, and have been prepared on the bases set out in Sections 2 and 3 below. No statement of adjustments as defined under Rule 4.15 of the Listing Rules is considered necessary.

The directors of the Company (the "Directors") are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"). The directors of the respective companies of the Group are responsible for the preparation and the true and fair presentation of the respective financial statements and, where appropriate, management accounts in accordance with the relevant accounting principles and financial regulations applicable to these companies. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information, financial statements and management accounts that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances. It is our responsibility to form an independent opinion on the Financial Information in respect of the Relevant Periods and to report our opinion to you.

Procedures performed in respect of the Financial Information

For the purpose of this report, we have carried out an independent audit on the Financial Information for the Relevant Periods in accordance with Hong Kong Standards on Auditing ("HKSAAs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and have carried out such additional procedures as are necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

Procedures performed in respect of the 30 April 2009 Financial Information

For the purpose of this report, we have also performed a review of the 30 April 2009 Financial Information in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with HKSAAs and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the 30 April 2009 Financial Information.

Opinion in respect of the Financial Information for the Relevant Periods

In our opinion, the Financial Information for the Relevant Periods prepared on the bases of presentation and preparation set out in Sections 2 and 3 below gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at 30 June 2007, 2008, 2009 and 30 April 2010, and of the combined results and combined cash flows of the Group for each of the Relevant Periods.

Review conclusion in respect of the 30 April 2009 Financial Information

On the basis of our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the 30 April 2009 Financial Information is not prepared, in all material respects, in accordance with HKFRSs.

1. FINANCIAL INFORMATION**Combined income statements**

Sections	Year ended 30 June			Ten months ended 30 April		
	2007	2008	2009	2009	2010	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
					(Unaudited)	
REVENUE	7	130,913	252,814	374,593	298,037	509,235
Cost of sales		(31,690)	(62,274)	(104,939)	(76,913)	(117,780)
Gross profit		99,223	190,540	269,654	221,124	391,455
Other income and gains	7	1,175	3,543	1,704	1,701	1,825
Selling and distribution costs		(57,319)	(125,508)	(175,321)	(151,223)	(263,996)
Administrative expenses		(7,477)	(10,520)	(13,584)	(11,066)	(22,488)
Fair value gain on derivative financial instruments	37	—	—	—	—	14,063
Finance costs	8	—	(177)	(142)	(127)	(48)
PROFIT BEFORE TAX	9	35,602	57,878	82,311	60,409	120,811
Income tax expense	12	(13,999)	(23,790)	(16,083)	(11,750)	(19,052)
PROFIT FOR THE YEAR/PERIOD. . .		<u>21,603</u>	<u>34,088</u>	<u>66,228</u>	<u>48,659</u>	<u>101,759</u>
Profit attributable to:						
Equity holders of the Company		14,182	24,617	67,618	49,815	102,742
Non-controlling interests		7,421	9,471	(1,390)	(1,156)	(983)
		<u>21,603</u>	<u>34,088</u>	<u>66,228</u>	<u>48,659</u>	<u>101,759</u>

Details of the dividends for the Relevant Periods are disclosed in Section 13.

Combined statements of comprehensive income

	Year ended 30 June			Ten months ended 30 April	
	2007	2008	2009	2009	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
PROFIT FOR THE YEAR/PERIOD	<u>21,603</u>	<u>34,088</u>	<u>66,228</u>	<u>48,659</u>	<u>101,759</u>
Other comprehensive income:					
Exchange differences on translating foreign operations	2,312	12,532	(488)	(403)	(814)
Income tax relating to component of other comprehensive income	—	—	—	—	—
Other comprehensive income for the year/period, net of tax	<u>2,312</u>	<u>12,532</u>	<u>(488)</u>	<u>(403)</u>	<u>(814)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD	<u>23,915</u>	<u>46,620</u>	<u>65,740</u>	<u>48,256</u>	<u>100,945</u>
Total comprehensive income attributable to:					
Equity holders of the Company	16,058	35,344	67,151	49,348	101,911
Non-controlling interests	7,857	11,276	(1,411)	(1,092)	(966)
	<u>23,915</u>	<u>46,620</u>	<u>65,740</u>	<u>48,256</u>	<u>100,945</u>

Combined statements of financial position

	Sections	30 June			30 April
		2007	2008	2009	2010
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
NON-CURRENT ASSETS					
Property, plant and equipment	15	5,738	6,700	6,060	1,392
Goodwill	16	1,223	15,772	15,772	15,772
Intangible asset	17	—	34,131	30,250	27,176
Deferred tax asset	18	—	—	845	935
Prepayments and deposits	21	16,535	—	—	13,594
Total non-current assets		<u>23,496</u>	<u>56,603</u>	<u>52,927</u>	<u>58,869</u>
CURRENT ASSETS					
Inventories	19	2,149	2,948	4,537	7,439
Trade receivables	20	14,446	51,602	94,864	105,251
Amounts due from related parties	35	33,103	49,460	49,238	126,634
Prepayments, deposits and other receivables	21	33,488	70,688	57,864	63,249
Cash and cash equivalents	22	<u>10,694</u>	<u>4,179</u>	<u>7,486</u>	<u>48,509</u>
Total current assets		<u>93,880</u>	<u>178,877</u>	<u>213,989</u>	<u>351,082</u>
CURRENT LIABILITIES					
Trade payables	23	5,000	8,712	22,605	24,413
Other payables and accruals	25	3,446	6,628	7,505	15,403
Derivative financial instruments	36	—	—	—	8,282
Interest-bearing bank loan	24	117	131	130	—
Amounts due to related parties	35	54,921	32,916	44,424	31,910
Tax payables		<u>4,555</u>	<u>13,851</u>	<u>13,116</u>	<u>5,086</u>
Total current liabilities		<u>68,039</u>	<u>62,238</u>	<u>87,780</u>	<u>85,094</u>
NET CURRENT ASSETS		<u>25,841</u>	<u>116,639</u>	<u>126,209</u>	<u>265,988</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>49,337</u>	<u>173,242</u>	<u>179,136</u>	<u>324,857</u>
NON-CURRENT LIABILITIES					
Interest-bearing bank loan	24	2,237	2,333	2,196	—
Deferred tax liabilities	18	—	8,533	7,563	6,794
Total non-current liabilities		<u>2,237</u>	<u>10,866</u>	<u>9,759</u>	<u>6,794</u>
Net assets		<u>47,100</u>	<u>162,376</u>	<u>169,377</u>	<u>318,063</u>
EQUITY					
Equity attributable to equity holders of the Company					
Issued capital	26	2	2	2	170
Reserves	28	<u>36,175</u>	<u>132,668</u>	<u>163,107</u>	<u>312,591</u>
		36,177	132,670	163,109	312,761
Non-controlling interests		<u>10,923</u>	<u>29,706</u>	<u>6,268</u>	<u>5,302</u>
Total equity		<u>47,100</u>	<u>162,376</u>	<u>169,377</u>	<u>318,063</u>

Combined statements of changes in equity

	Attributable to equity holders of the Company										
	Issued capital	Share premium account	Share award reserve	Merger reserve	Capital reserve	Statutory reserve funds	Retained profits	Exchange fluctuation reserve	Total	Non-controlling interests	Total equity
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Note (a)	Note (a)	Note (a)	Note (b)	Note (b)	Note (c)	Note (c)	Note (c)	Note (c)	Note (c)	Note (c)	Note (c)
At 1 July 2006	—	—	—	2,643	—	142	13,665	(1,968)	14,482	8,981	23,463
Issue of shares of Magic Holdings Group Limited ("Magic Holdings")	2	—	—	—	—	—	—	—	2	—	2
Acquisition of non-controlling interest in 廣州美即化妝品有限公司 ("Guangzhou Magic")	—	—	—	5,915	—	—	—	—	5,915	(5,915)	—
Cash consideration paid for the acquisition of a non-controlling interest in Guangzhou Magic	—	—	—	(280)	—	—	—	—	(280)	—	(280)
Total comprehensive income for the year	—	—	—	—	—	—	14,182	1,876	16,058	7,857	23,915
Transfer to statutory reserve fund	—	—	—	—	—	4,579	(4,579)	—	—	—	—
At 30 June 2007 and 1 July 2007	2	—*	—*	8,278*	—*	4,721*	23,268*	(92)*	36,177	10,923	47,100
Capital contribution	—	—	—	—	61,149	—	—	—	61,149	—	61,149
Acquisition of a subsidiary (Section 29)	—	—	—	—	—	—	—	—	—	7,507	7,507
Total comprehensive income for the year	—	—	—	—	—	—	24,617	10,727	35,344	11,276	46,620
Transfer to statutory reserve funds	—	—	—	—	—	3,278	(3,278)	—	—	—	—
At 30 June 2008	2	—*	—*	8,278*	61,149*	7,999*	44,607*	10,635*	132,670	29,706	162,376

Attributable to equity holders of the Company

	Issued capital	Share premium account	Share award reserve	Merger reserve	Capital reserve	Statutory reserve funds	Retained profits	Exchange fluctuation reserve	Total	Non-controlling interests	Total equity
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Note (a)	Note (a)	Note (a)	Note (b)	Note (b)	Note (c)	Note (c)	Note (c)	Note (c)	Note (c)	Note (c)	Note (c)
At 1 July 2008	2	—	—	8,278*	61,149*	7,999*	44,607*	10,635*	132,670	29,706	162,376
Total comprehensive income for the year	—	—	—	—	—	—	67,618	(467)	67,151	(1,411)	65,740
Dividend declared (Section 31(a))	—	—	—	—	—	—	(33,191)	—	(33,191)	(14,204)	(47,395)
Transfer to statutory reserve fund	—	—	—	—	—	2,658	(2,658)	—	—	—	—
Acquisition of non-controlling interest in 廣東群禾藥業有限公司 ("Guangdong Qunhe") and its subsidiary	—	—	—	4,420	—	—	—	—	4,420	(4,420)	—
Consideration paid for the acquisition of a non-controlling interest in Guangdong Qunhe and its subsidiary (Section 31(b))	—	—	—	(7,941)	—	—	—	—	(7,941)	(3,403)	(11,344)
At 30 June 2009 and 1 July 2009	2	—*	—*	4,757*	61,149*	10,657*	76,376*	10,168*	163,109	6,268	169,377
Issue of shares of Magic Holdings (Section 36).	168	39,887	—	—	—	—	—	—	40,055	—	40,055
Share issue expenses	—	(765)	—	—	—	—	—	—	(765)	—	(765)
Share award expenses (Section 27)	—	—	8,451	—	—	—	—	—	8,451	—	8,451
Total comprehensive income for the period	—	—	—	—	—	—	102,742	(831)	101,911	(966)	100,945
Transfer to statutory reserve funds	—	—	—	—	—	3,692	(3,692)	—	—	—	—
At 30 April 2010	170	39,122*	8,451*	4,757*	61,149*	14,349*	175,426*	9,337*	312,761	5,302	318,063

Attributable to equity holders of the Company

	Issued capital	Share premium account	Share award reserve	Merger reserve	Capital reserve	Statutory reserve funds	Retained profits	Exchange fluctuation reserve	Total	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	Note (a)	Note (a)	Note (a)	Note (b)	Note (b)	Note (c)					
At 1 July 2008	2	—*	—	8,278*	61,149*	7,999*	44,607*	10,635*	132,670	29,706	162,376
Dividend declared (Section 31(a))	—	—	—	—	—	—	(33,272)	—	(33,272)	(14,204)	(47,476)
Acquisition of non-controlling interest in Guangdong Qunhe and its subsidiary	—	—	—	4,420	—	—	—	—	4,420	(4,420)	—
Consideration paid for the acquisition of a non-controlling interest in Guangdong Qunhe and its subsidiary (Section 31(b))	—	—	—	(7,941)	—	—	—	—	(7,941)	(3,403)	(11,344)
Total comprehensive income for the period	—	—	—	—	—	—	49,815	(338)	49,477	(1,221)	48,256
Transfer to statutory reserve funds	—	—	—	—	—	2,499	(2,499)	—	—	—	—
At 30 April 2009 (unaudited)	2	—	—	4,757	61,149	10,498	58,651	10,297	145,354	6,458	151,812

* These reserve accounts comprise the combined reserves of HK\$36,175,000, HK\$132,668,000, HK\$163,107,000 and HK\$312,591,000 in the combined statements of financial position as at 30 June 2007, 2008, 2009 and 30 April 2010, respectively.

Notes:

- (a) During the year ended 30 June 2007, Magic Holdings was incorporated with an authorised share capital of US\$50,000 of 50,000 shares of US\$1 each, 200 shares of US\$1 each were issued. On 1 July 2009, an additional 19,800 shares of US\$1 each were issued. During the ten months ended 30 April 2010, 1,739 shares of US\$1 each were issued at an aggregate subscription price of HK\$62,400,000. The respective share issue expenses of HK\$765,000 has been included in "other payables and accruals" as at 30 April 2010. Since the pre-listing share swap between the Company and the then equity holders of Magic Holdings was completed on 6 September 2010, the share capital represented the share capital of Magic Holdings as at 30 June 2007, 30 June 2008, 30 June 2009 and 30 April 2010.
- (b) Capital reserve represents the excess capital paid over the issued capital of Magic Holdings by the then shareholders during the year ended 30 June 2008.
- (c) In accordance with the Company Law of the People's Republic of China (the "PRC"), the Company's subsidiaries registered in the PRC are required to appropriate 10% of the annual statutory net profit after tax (after offsetting any prior years' losses) to the statutory reserve funds. When the balance of the statutory reserve funds reaches 50% of each entity's registered capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior years' losses or to increase the registered capital. However, such balance of the statutory reserve fund must be maintained at a minimum of 50% of the registered capital after such usages.

Combined statements of cash flows

Sections	Year ended 30 June			Ten months ended 30 April	
	2007	2008	2009	2009	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Unaudited)	HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before tax	35,602	57,878	82,311	60,409	120,811
Adjustments for:					
Finance costs	8	177	142	127	48
Bank interest income	7	(386)	(11)	(11)	(67)
Loss on disposal of items of property, plant and equipment . . .	9	—	—	—	101
Depreciation	9	567	615	467	415
Amortisation of intangible asset . . .	9	—	3,787	3,156	3,156
Equity-settled share award expenses	27	—	—	—	8,451
Gain on disposal of a subsidiary . . .	30	—	—	—	(1,369)
Fair value gain on derivative financial instruments	36	—	—	—	(14,063)
	<u>35,870</u>	<u>58,236</u>	<u>86,844</u>	<u>64,148</u>	<u>117,483</u>
Decrease/(increase) in inventories . . .	(1,003)	59	(1,589)	(243)	(2,902)
Increase in trade receivables	(974)	(37,156)	(43,262)	(27,423)	(10,387)
Decrease/(increase) in prepayments, deposits and other receivables	(10,969)	(20,567)	12,824	26,664	(5,385)
Increase in trade payables	3,001	3,712	13,893	12,953	1,808
Increase/(decrease) in other payables and accruals	1,258	3,012	(877)	14,207	7,898
Exchange realignment	<u>2,035</u>	<u>10,450</u>	<u>1,258</u>	<u>(350)</u>	<u>398</u>
Cash generated from operations	<u>29,218</u>	<u>17,746</u>	<u>69,091</u>	<u>89,956</u>	<u>108,913</u>
Interest received	30	386	11	11	67
Interest paid	—	(177)	(142)	(127)	(48)
Overseas tax paid	<u>(11,101)</u>	<u>(14,507)</u>	<u>(18,610)</u>	<u>(18,582)</u>	<u>(27,976)</u>
Net cash flows from operating activities	<u>18,147</u>	<u>3,448</u>	<u>50,350</u>	<u>71,258</u>	<u>80,956</u>

Sections	Year ended 30 June			Ten months ended 30 April	
	2007	2008	2009	2009	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Unaudited)	HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES					
Increase in amounts due from related parties, net	(33,103)	(16,357)	(44,213)	(50,033)	(77,396)
Purchases of items of property, plant and equipment	(5,260)	(853)	(338)	(323)	(512)
Deposits paid for purchase of land use right	—	—	—	—	(13,594)
Proceeds from disposal of items of property, plant and equipment	44	—	342	342	—
Acquisition of a subsidiary 29	—	(31,989)	—	—	—
Disposal of a subsidiary 30	—	—	—	—	1,136
Repayment to a former subsidiary . .	—	—	—	—	(1,136)
Acquisition of non-controlling interest in Guangzhou Magic	(280)	—	—	—	—
Net cash flows used in investing activities	<u>(38,599)</u>	<u>(49,199)</u>	<u>(44,209)</u>	<u>(50,014)</u>	<u>(91,502)</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
Increase/(decrease) in amounts due to related parties, net 31(c)	26,576	7,958	(2,697)	(8,387)	(10,066)
New bank loans	2,354	—	—	—	—
Repayment of bank loans	—	(144)	(131)	(113)	—
Proceeds from issuance of shares of Magic Holdings, net	2	—	—	—	61,635
Capital contribution from the then shareholders of Magic Holdings . . .	—	31,186	—	—	—
Net cash flows from/(used in) financing activities	<u>28,932</u>	<u>39,000</u>	<u>(2,828)</u>	<u>(8,500)</u>	<u>51,569</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS					
Cash and cash equivalents at beginning of year/period	2,102	10,694	4,179	4,179	7,486
Exchange realignment	112	236	(6)	—	—
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	<u>10,694</u>	<u>4,179</u>	<u>7,486</u>	<u>16,923</u>	<u>48,509</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS					
Cash and bank balances 22	2,882	3,367	7,486	16,923	48,509
Non-pledged time deposits with original maturity of less than three months when acquired 22	7,812	812	—	—	—
Cash and cash equivalents	<u>10,694</u>	<u>4,179</u>	<u>7,486</u>	<u>16,923</u>	<u>48,509</u>

2. CORPORATE INFORMATION AND BASIS OF PRESENTATION

The Company is a limited company incorporated in the Cayman Islands. The Company's registered office is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. It became the holding company of the Group as a result of the Reorganisation as described in the paragraph headed "Corporate reorganisation" in "Appendix VI - Statutory and general information" to the Prospectus.

As detailed on pages 73 to 76 to the Prospectus, two shareholders of Magic Holdings have provided voting-in-concert undertaking to Hua Han Bio-Pharmaceutical Holdings Limited ("HHBP"), a company incorporated in Cayman Islands and listed in the Stock Exchange during the Relevant Periods. Taking into consideration of these undertakings, the directors of the Company considered the Group as subsidiaries of HHBP during the Relevant Periods.

For the purpose of this report, the Financial Information has been prepared to reflect the reorganisation of the entities under common control. The Company and its subsidiaries are ultimately controlled by HHBP, before and after the completion of the Reorganisation.

The Reorganisation is accounted for using the merger accounting upon completion. The Financial Information as set out in this report is prepared on a combined basis as prescribed by Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

For the purpose of this report, the combined income statements, combined statements of comprehensive income, combined statements of cash flows and combined statements of changes in equity of the Group for the Relevant Periods, have been prepared on a combined basis and include the financial information of the companies now comprising the Group as if the current group structure had been in existence throughout the Relevant Periods, or since their respective dates of incorporation/establishment or acquisition, whichever is the shorter period.

The combined statements of financial position of the Group as at 30 June 2007, 2008, 2009 and 30 April 2010 have been prepared to present the assets and liabilities of the Group as at those dates as if the current group structure had been in existence at those dates or since their respective dates of incorporation/establishment or acquisition where they did not exist at those dates.

During the years ended 30 June 2007 and 2009, there were changes in HHBP's ownership interest in Guangzhou Magic, Guangdong Qunhe and its then subsidiary that did not result in a loss of control. These transactions were accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests were adjusted to reflect the changes in their relative interests in these subsidiaries and the difference between the amount by which the non-controlling interests were adjusted and the fair value of the consideration paid had been recognised directly in merger reserves and attributed to the equity holders of the Company.

As at the date of this report, the Company had direct or indirect interests in the following subsidiaries, all of which have characteristics substantially similar to a private company incorporated in Hong Kong, the particulars of which are set out below:

Company name	Place and date of incorporation establishment and operation	Nominal value of issued and paid-up shares/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
			%	%	
Subsidiaries					
Magic Holdings ¹	British Virgin Islands ("BVI") 29 June 2006	US\$21,739	100	—	Investment holding
Guangdong Qunhe** (Guangdong Qunhe Pharmaceutical Company Limited) [#]	PRC/Mainland China 13 March 2003	RMB10,000,000	—	100	Trading of facial mask and other skincare products
Guangzhou Magic* (Guangzhou MG Cosmetics Manufacture Company Limited) [#]	PRC/Mainland China 22 August 2003	HK\$40,000,000	—	100	Manufacture and sale of facial mask and other skincare products
北京東麗盛化妝品有限公司 ("Donglisheng")** (Beijing Donglisheng Cosmetics Company Limited) [#]	PRC/Mainland China 20 January 2005	RMB5,000,000	—	70	Sale of skincare products
Korea Mijeuk Company Limited	Korea 27 December 2006	KRW50,000,000	—	100	Dormant
群禾(香港)國際有限公司 ² (Qunhe (Hong Kong) International Company Limited)	Hong Kong 9 November 2006	HK\$2	—	100	Provision of administrative services to group companies
廣州美即生物科技有限公司 ³ (Guangzhou MG Bio-technology Company Limited) [#] ("MG Bio-tech")	PRC/Mainland China 21 January 2008	HK\$46,800,000	—	100	Investment holding
Magic-Hanbul Holdings Limited ("MG JV BVI") ⁴	BVI 7 May 2010	US\$2,950,000	—	51	Investment holding
Magic-Hanbul International Limited ("MG JV HK") ⁴	Hong Kong 1 September 2010	HK\$23,000,000	—	51	Investment holding

As at the date of this report, no statutory audited financial statements have been prepared for the Company since the date of its incorporation as the Company has not been involved in any significant business transactions other than the Reorganisation and other events described in the paragraph headed "Corporate reorganisation" in "Appendix VI — Statutory and general information" to the Prospectus. We have, however, performed our own independent audit of all relevant transactions of the Company since the date of its incorporation.

Notes:

- * Registered as wholly-foreign-owned enterprises under the laws of the People's Republic of China
- ** Registered as domestic enterprises under the laws of the People's Republic of China
- # Being the unofficial translation
- 1. No statutory audited financial statements have been prepared for Magic Holdings since it is not subject to any statutory audit requirements under its jurisdiction of incorporation.
- 2. The statutory financial statements for the period from 9 November 2006 (date of incorporation) to 30 June 2007, and years ended 30 June 2008 and 2009 were audited by Ernst & Young, certified public accountants registered in Hong Kong.
- 3. The registered capital of MG Bio-tech is HK\$78,000,000. The Group has injected capital of HK\$46,800,000 to MG Bio-tech up to the date of this report. The unpaid registered capital of MG Bio-tech amounted to HK\$31,200,000 at the date of this report.
- 4. Pursuant to a joint venture agreement dated 2 March 2010 entered between the Group and Hanbul Cosmetics Company Limited ("Hanbul"), a company incorporated in Korea, MG JV BVI and its subsidiary MG JV HK (the "MG JV Group") were incorporated on 7 May 2010 and 1 September 2010, respectively. Besides, a subsidiary of MG JV HK will be established in the PRC. MG JV BVI was incorporated with an authorised share capital of US\$5,000,000 divided into 5,000,000 ordinary shares of US\$1 each. On 16 June 2010, 1 ordinary share of US\$1 was issued at par to Magic Holdings. On 16 August 2010, 1,504,499 and 1,445,000 ordinary shares of US\$1 each were issued to the Group and Hanbul, respectively, at US\$1 per share.
Besides, MG JV HK was incorporated with an authorised share capital of HK\$50,000,000 divided into 50,000,000 ordinary shares of HK\$1 each. On 1 September 2010, 23,000,000 ordinary shares of HK\$1 each of MG JV HK was issued at par to its sole shareholder, MG JV BVI.

3. BASIS OF PREPARATION

The Financial Information has been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong.

The HKICPA issued a number of new or revised HKFRSs which are generally effective for accounting periods beginning on or after 1 July 2006, 1 July 2007, 1 July 2008 and 1 July 2009.

For the purpose of preparing and presenting the Financial Information, the Group has early adopted all these new and revised HKFRSs that are relevant to the Group's operations as at the beginning of the Relevant Periods. As the Company was incorporated on 9 February 2010 and has no operation up to 30 April 2010, except for the allotment and transfer of one nil-paid share as further detailed in section 26 below, accordingly no financial statements are presented for the Company.

The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

The Financial Information has been prepared under the historical cost convention, except for derivative financial instruments which have been measured at fair value. The Financial Information is presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest thousand except when otherwise indicated.

All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on combination in full.

Impact of issued but not yet effective HKFRSs

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Financial Information.

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards — Additional Exemptions for First-time Adopters</i> ¹
HKFRS 2 Amendments	Amendments to HKFRS 2 <i>Share-based Payment — Group Cash-settled Share-based Payment Transactions</i> ¹
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments</i> ⁴
HKFRS 9	<i>Financial Instruments</i> ⁵
HKAS 24 (Revised)	<i>Related Party Disclosures</i> ⁴
HKAS 32 Amendment	Amendment to HKAS 32 <i>Financial Instruments: Presentation — Classification of Rights Issues</i> ²
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 <i>Prepayments of a Minimum Funding Requirement</i> ⁴
HK(IFRIC)-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i> ³
HK Interpretation 4 (Revised in December 2009)	<i>Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i> ¹

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2009* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

In addition, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out a collection of amendments to HKFRSs in response to the International Accounting Standards Board's accounting improvements project.

¹ Effective for annual periods beginning on or after 1 January 2010

² Effective for annual periods beginning on or after 1 February 2010

³ Effective for annual periods beginning on or after 1 July 2010

⁴ Effective for annual periods beginning on or after 1 January 2011

⁵ Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on its results of operations and financial position.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted by the Group in arriving at the Financial Information set out in this report, which conform to HKFRSs, are set out below:

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

The acquisition of a subsidiary during the year ended 30 June 2008 has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

- (a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;
- (c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

- (d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the combined statements of financial position as an asset, initially measured at cost and subsequently at cost less any impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statements in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statements in the period in which it arises.

Related parties

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

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is a jointly-controlled entity;
- (c) the party is a member of the key management personnel of the Group or any of its holding companies;
- (d) the party is a close member of the family of any individual referred to in (a) or (c);
- (e) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d); or
- (f) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment 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 items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statements in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold building	Over the lease terms
Plant and machinery	Over the lease terms or 2% to 10%, whichever is shorter
Furniture, fixtures, equipment and motor vehicles	20% to 33%
Leasehold improvement	20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year/period end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the combined income statements in the year/period the asset is derecognised is the difference between the net sale proceeds and the carrying amount of the relevant asset.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial period end.

Trade name

The cost of acquiring the trade name for skincare products is stated at cost less any impairment losses and is amortised on the straight-line basis over the estimated economic life of nine years.

Research and development costs

All research costs are charged to the combined income statements as incurred.

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 net of any incentives received from the lessor are charged to the combined income statements on the straight-line basis over the lease terms.

Investments and other financial assets

The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of instruments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include trade receivables, amounts due from fellow subsidiaries, an intermediate holding company, ultimate holding company, other receivables, cash and cash equivalents.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the combined income statements. The loss arising from impairment is recognised in the combined income statements.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and

rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the income statement.

Financial liabilities

The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, amounts due to ultimate holding company, a non-controlling interest equity holder, fellow subsidiaries, an intermediate holding company, immediate holding company and interest-bearing bank loans.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit and loss when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the combined income statements.

Derecognition of financial liabilities

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

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

Derivative financial instruments

Initial recognition and subsequent measurement

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the income statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the combined statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the combined statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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 deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and
- (b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Share-based payment transactions

The Group operates a share award plan for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a discounted cash flow model, further details of which are given in Section 27.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not

met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

Employee benefits

Pension 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. Contributions are made based on a percentage of the employees' basic salaries and are charged to the combined income statements as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries are required to contribute certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the combined income statements as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currencies

The Financial Information are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the combined income statements.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollars. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for each of the accounting years/periods of the Relevant Periods. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation the component of other comprehensive income relating to that particular foreign operation is recognised in the combined income statements.

For the purpose of the combined statements of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year/period are translated into Hong Kong dollars at the weighted average exchange rates for each of the year/period under the Relevant Periods.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustments to the carrying amounts of the assets or liabilities affected in the future.

Judgement

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has the most significant effect on the amounts recognised in the Financial Information:

Impairment of assets

In determining whether an asset is impaired or whether the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value, or such an event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows, which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could have a material effect on the net present value used in the impairment test.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period, 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.

Impairment of trade receivables

Impairment of trade receivables is made based on assessment of the recoverability of trade receivables. The identification of impairment requires management judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the receivables as well as impairment or write-back of impairment in the period in which such estimate has been changed.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 30 June 2007, 30 June 2008, 30 June 2009 and 30 April 2010 were HK\$1,223,000, HK\$15,772,000, HK\$15,772,000 and HK\$15,772,000, respectively. More details are given in Section 16.

Impairment of intangible assets

The Group performs annual assessments on whether there has been impairment of intangible assets. The recoverable amounts of cash-generating units are determined based on value in use calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the businesses, pre-tax discount rates and other assumptions underlying the value in use calculations. The carrying amounts of intangible asset at 30 June 2008, 30 June 2009 and 30 April 2010 were HK\$34,131,000, HK\$30,250,000 and HK\$27,176,000, respectively. More details are given in Section 17.

Valuation of derivative financial instruments

As further detailed in Section 36, the Group entered into the Subscription Agreement (as defined in Section 36) with the Subscribers (as defined in Section 36) during the ten months ended 30 April 2010. The Group's management has assessed the terms of the Subscription Agreement and the facts and circumstance, and concluded that in respect of the funds contributed by the Subscribers, an equity and a derivative components shall be recognised as at the date of completion of the subscription. After initial recognition, the derivative component is measured at fair value as at the end of the reporting period. Significant inputs used to determine the fair value include risk-free rate, volatility, dividend yield, probability of listing, revenue growth, gross profit margin, discount rate and effective tax rate.

Valuation of share awards

As further detailed in Section 27, the fair value of share awards granted under the share award plan is determined using the discounted cash flow model. The significant inputs into the model are revenue growth, gross profit margin, effective tax rate and discount rate.

6. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products. Since the Group has only one single product line, which is the manufacturing and sale of facial masks, during the Relevant Periods, accordingly no further analysis thereof is presented.

Besides, the Group's customers and non-current assets are solely in the People's Republic of China, no further analysis on the geographical information thereof is presented.

Information about major customers

	Year ended 30 June			Ten months ended 30 April	
	2007	2008	2009	2009	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Customer A	N/A*	55,757	93,098	81,698	103,268
Customer B	20,733	53,614	59,151	45,262	81,468
Customer C	22,141	69,173	45,383	44,168	N/A*
Customer D	16,942	—	—	—	—
	<u>59,816</u>	<u>178,544</u>	<u>197,632</u>	<u>171,128</u>	<u>184,736</u>

* Sales to customers A and C during the year ended 30 June 2007 and the ten months ended 30 April 2010, respectively amounted to less than 10% of the revenue during that year/period. Accordingly, no disclosure of sales amount was presented in the above.

7. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts. An analysis of revenue, other income and gains is as follows:

	Year ended 30 June			Ten months ended 30 April	
	2007	2008	2009	2009	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
<i>Revenue</i>					
Sales of goods	130,913	252,814	374,593	298,037	509,235
<i>Other income and gains</i>					
Bank interest income	30	386	11	11	67
Government subsidies *	1,143	3,157	1,690	1,690	—
Gain of disposal of a subsidiary (Section 30)	—	—	—	—	1,369
Others	2	—	3	—	389
	<u>1,175</u>	<u>3,543</u>	<u>1,704</u>	<u>1,701</u>	<u>1,825</u>
	<u>132,088</u>	<u>256,357</u>	<u>376,297</u>	<u>299,738</u>	<u>511,060</u>

* There are no unfulfilled conditions or contingencies relating to these subsidies.

8. FINANCE COSTS

	Year ended 30 June			Ten months ended 30 April	
	2007	2008	2009	2009	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Interest on bank loans wholly repayable after five years	<u>—</u>	<u>177</u>	<u>142</u>	<u>127</u>	<u>48</u>

9. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Year ended 30 June			Ten months ended 30 April	
	2007	2008	2009	2009	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Foreign exchange differences, net	295	74	129	141	348
Minimum lease payments under operating leases on land and buildings	1,077	931	1,517	1,138	1,044
Cost of inventories sold	31,690	62,274	104,939	76,913	117,780
Depreciation *	298	567	615	467	415
Loss on disposal of items of property, plant and equipment	—	—	—	—	101
Amortisation of intangible asset *	—	—	3,787	3,156	3,156
Employee benefit expenses * (including directors' remuneration (Section 10)):					
Wages and salaries	4,918	8,783	12,508	10,287	12,747
Retirement benefit scheme contributions	353	1,462	2,163	1,692	2,673
Equity-settled share award expenses	—	—	—	—	8,451
	<u>5,271</u>	<u>10,245</u>	<u>14,671</u>	<u>11,979</u>	<u>23,871</u>
Auditors' remuneration	—	—	—	—	—
Gain on disposal of a subsidiary (Section 30)	—	—	—	—	(1,369)
Fair value changes on derivative financial instruments (Sections 36, 37)	—	—	—	—	<u>(14,063)</u>

The auditors' remuneration of the Group for the Relevant Periods was borne by a fellow subsidiary of the Company.

The auditors' remuneration of HHBP and its subsidiaries were HK\$1,980,000, HK\$2,330,000 and HK\$2,600,000 for the years ended 30 June 2007, 2008 and 2009, respectively.

* Included in the respective balances are the following amounts which are also included in cost of inventories sold disclosed above:

	Year ended 30 June			Ten months ended 30 April	
	2007	2008	2009	2009	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Depreciation	119	96	105	88	89
Amortisation of intangible asset.	—	—	3,787	3,156	3,156
Employee benefit expenses	1,014	1,656	2,420	2,017	3,786
	<u>1,133</u>	<u>1,752</u>	<u>6,312</u>	<u>5,261</u>	<u>7,031</u>

10. DIRECTORS' REMUNERATION

Details of the directors' remuneration are as follows:

	Year ended 30 June			Ten months ended 30 April	
	2007	2008	2009	2009	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Fees	—	—	—	—	—
Other emoluments:					
Salaries, bonuses, allowances and benefits in kind.	366	1,021	1,155	974	1,969
Retirement benefit scheme contributions	14	15	16	14	14
Equity-settled share award expenses . .	—	—	—	—	6,261
	<u>380</u>	<u>1,036</u>	<u>1,171</u>	<u>988</u>	<u>8,244</u>

(a) Independent non-executive directors

Mr. Yang Rude, Mr. Yan Kam Tong and Prof. Dong Yin Mou were appointed as the independent non-executive directors of the Company on 6 September 2010. There were no fees or other emoluments payable to independent non-executive directors during the Relevant Periods.

(b) Executive directors

	Fees	Salaries, bonuses allowances and benefits in kind	Retirement benefit scheme contributions	Equity- settled share award expenses	Total remuneration
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Year ended 30 June 2007					
Mr. Tang Siu Kun Stephen ("Mr. Tang")	—	31	—	—	31
Mr. She Yu Yuan ("Mr. She")	—	241	8	—	249
Mr. Luo Yao Wen ("Mr. Luo")	—	94	6	—	100
Mr. Zhang Kunmou ("Mr. Zhang")	—	—	—	—	—
Mr. Chen Lei ("Mr. Chen")	—	—	—	—	—
	<u>—</u>	<u>366</u>	<u>14</u>	<u>—</u>	<u>380</u>
Year ended 30 June 2008					
Mr. Tang	—	242	—	—	242
Mr. She	—	608	8	—	616
Mr. Luo	—	171	7	—	178
Mr. Zhang	—	—	—	—	—
Mr. Chen	—	—	—	—	—
	<u>—</u>	<u>1,021</u>	<u>15</u>	<u>—</u>	<u>1,036</u>
Year ended 30 June 2009					
Mr. Tang	—	249	—	—	249
Mr. She	—	620	8	—	628
Mr. Luo	—	286	8	—	294
Mr. Zhang	—	—	—	—	—
Mr. Chen	—	—	—	—	—
	<u>—</u>	<u>1,155</u>	<u>16</u>	<u>—</u>	<u>1,171</u>
Ten months ended 30 April 2009 (unaudited)					
Mr. Tang	—	209	—	—	209
Mr. She	—	527	7	—	534
Mr. Luo	—	238	7	—	245
Mr. Zhang	—	—	—	—	—
Mr. Chen	—	—	—	—	—
	<u>—</u>	<u>974</u>	<u>14</u>	<u>—</u>	<u>988</u>

	Fees	Salaries, bonuses allowances and benefits in kind	Retirement benefit scheme contributions	Equity- settled share award expenses	Total remuneration
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Ten months ended 30 April 2010					
Mr. Tang	—	814	—	3,009	3,823
Mr. She	—	644	8	2,325	2,977
Mr. Luo	—	511	6	927	1,444
Mr. Zhang	—	—	—	—	—
Mr. Chen	—	—	—	—	—
	—	1,969	14	6,261	8,244

The directors' remuneration shown above includes the estimated monetary value of the Company's owned premises provided rent-free to Mr. She during the Relevant Periods. The estimated rental value of such accommodation were approximately HK\$117,000, HK\$129,000, HK\$136,000 and HK\$68,000 for the three years ended 30 June 2007, 2008 and 2009 and ten months ended 30 April 2010, respectively.

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

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the Relevant Periods are analysed as follows:

	Year ended 30 June			Ten months ended 30 April	
	2007	2008	2009	2009	2010
	(Unaudited)				
Directors	2	3	3	3	3
Non-director, highest paid employees . . .	3	2	2	2	2
	5	5	5	5	5

Details of the remuneration of the above non-director, highest paid employees during the Relevant Periods are as follows:

	Year ended 30 June			Ten months ended 30 April	
	2007	2008	2009	2009	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Salaries, allowances and benefits in kind	315	506	723	439	2,085
Retirement benefit scheme contributions	1	11	14	12	12
Equity-settled share award expenses	—	—	—	—	96
	<u>316</u>	<u>517</u>	<u>737</u>	<u>451</u>	<u>2,193</u>

The number of these non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Year ended 30 June			Ten months ended 30 April	
	2007	2008	2009	2009	2010
				(Unaudited)	
Nil to HK\$1,000,000	3	2	2	2	1
HK\$1,000,001 to HK\$1,500,000	—	—	—	—	1
	<u>3</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>

During the Relevant Periods, no remuneration was paid by the Group to the Directors or any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office. None of the persons, who were Directors, waived or agreed to waive any emoluments during the Relevant Periods.

12. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the Relevant Periods.

Taxes on profits assessable in Mainland China have been calculated at the prevailing tax rates, based on existing legislation, interpretations and practices in respect thereof.

The applicable tax rate for Guangzhou Magic for the year ended 30 June 2007 was 33%. On 25 April 2007, Guangzhou Magic has changed its business type from a domestic owned enterprise to a wholly foreign owned enterprise and was granted a two-year tax exemption followed by 3-year 50% reduction with effect from 1 January 2008.

Pursuant to the preferential policy in the economic zone in Yangpu, Hainan Province, Hainan Yangpu Zhenghan Trading Company Limited ("Hainan Yangpu") was granted a tax holiday for the period from January 2005 to December 2006. Subsequent to the tax holiday, assessable profits of Hainan Yangpu were subjected to a lower applicable tax rate of 15%, 18% and 20% for the calendar years ended 31 December 2007, 2008 and 2009, respectively.

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and became effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Guangdong Qunhe and Donglisheng, domestic-invested enterprises operating in the PRC, were immediately transited to the applicable tax rate of 25%.

The major components of the income tax expense for the Relevant Periods are as follows:

	Year ended 30 June			Ten months ended 30 April	
	2007	2008	2009	2009	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Group:					
Current - Mainland China					
Charge for the year/period	13,999	23,790	17,875	13,024	18,697
Underprovision in prior years	—	—	—	—	1,234
Deferred (Section 18)	—	—	(1,792)	(1,274)	(879)
Total tax charge for the year/period	<u>13,999</u>	<u>23,790</u>	<u>16,083</u>	<u>11,750</u>	<u>19,052</u>

A reconciliation of the tax expense applicable to profit before tax at the statutory tax rates to the tax expense at the Group's effective tax rates is as follows:

	Year ended 30 June			Ten months ended 30 April	
	2007	2008	2009	2009	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Profit before tax	<u>35,602</u>	<u>57,878</u>	<u>82,311</u>	<u>60,409</u>	<u>120,811</u>
Tax at the applicable tax rates	11,754	16,617	20,644	15,151	29,752
Lower tax rate for specific provinces or local authority	—	(3,226)	(5,857)	(5,464)	(7,696)
Adjustment in respect of current tax of previous periods	—	—	—	—	1,234
Income not subject to tax	(56)	—	(5,938)	(4,855)	(5,980)
Expenses not deductible for tax.	<u>2,301</u>	<u>10,399</u>	<u>7,234</u>	<u>6,918</u>	<u>1,742</u>
Tax charge at the Group's effective tax rates	<u>13,999</u>	<u>23,790</u>	<u>16,083</u>	<u>11,750</u>	<u>19,052</u>

13. DIVIDEND

No dividend has been paid or declared by the Company since the date of its incorporation.

The dividend paid by the Company's subsidiary to its then shareholders during the Relevant Periods were as follows:

	Year ended 30 June			Ten months ended 30 April	
	2007	2008	2009	2009	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Dividend (Section 31(a))	<u>—</u>	<u>—</u>	<u>47,395</u>	<u>47,395</u>	<u>—</u>

14. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation and the preparation of the results of the Group for the Relevant Period on the combined basis as disclosed in Section 2 above.

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold building	Plant and machinery	Furniture, fixtures, equipment, and motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
30 June 2007				
Cost:				
At 1 July 2006.	—	422	929	1,351
Additions	4,709	162	389	5,260
Disposals	—	(92)	—	(92)
Exchange realignment.	124	25	61	210
At 30 June 2007	<u>4,833</u>	<u>517</u>	<u>1,379</u>	<u>6,729</u>
Accumulated depreciation:				
At 1 July 2006.	—	122	574	696
Depreciation charge for the year . .	—	127	171	298
Write-back on disposals.	—	(48)	—	(48)
Exchange realignment.	—	9	36	45
At 30 June 2007	<u>—</u>	<u>210</u>	<u>781</u>	<u>991</u>
Net book value:				
At 30 June 2007	<u>4,833</u>	<u>307</u>	<u>598</u>	<u>5,738</u>
At 30 June 2006	<u>—</u>	<u>300</u>	<u>355</u>	<u>655</u>

	Leasehold building	Plant and machinery	Furniture, fixtures, equipment, and motor vehicles	Leasehold improvements	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
30 June 2008					
Cost:					
At 1 July 2007.	4,833	517	1,379	—	6,729
Additions.	—	238	508	107	853
Acquisition of a subsidiary (Section 29).	—	—	28	—	28
Exchange realignment. . . .	538	72	176	7	793
At 30 June 2008.	<u>5,371</u>	<u>827</u>	<u>2,091</u>	<u>114</u>	<u>8,403</u>
Accumulated depreciation:					
At 1 July 2007.	—	210	781	—	991
Depreciation charge for the year.	232	125	205	5	567
Exchange realignment. . . .	14	32	99	—	145
At 30 June 2008.	<u>246</u>	<u>367</u>	<u>1,085</u>	<u>5</u>	<u>1,703</u>
Net book value:					
At 30 June 2008.	<u>5,125</u>	<u>460</u>	<u>1,006</u>	<u>109</u>	<u>6,700</u>
At 30 June 2007.	<u>4,833</u>	<u>307</u>	<u>598</u>	<u>—</u>	<u>5,738</u>
30 June 2009					
Cost:					
At 1 July 2008.	5,371	827	2,091	114	8,403
Additions.	—	163	175	—	338
Disposals.	—	—	(394)	—	(394)
Exchange realignment. . . .	(15)	(3)	(11)	—	(29)
At 30 June 2009.	<u>5,356</u>	<u>987</u>	<u>1,861</u>	<u>114</u>	<u>8,318</u>
Accumulated depreciation:					
At 1 July 2008.	246	367	1,085	5	1,703
Depreciation charge for the year.	272	160	178	5	615
Write-back on disposals. . .	—	—	(52)	—	(52)
Exchange realignment. . . .	—	—	(8)	—	(8)
At 30 June 2009.	<u>518</u>	<u>527</u>	<u>1,203</u>	<u>10</u>	<u>2,258</u>
Net book value:					
At 30 June 2009.	<u>4,838</u>	<u>460</u>	<u>658</u>	<u>104</u>	<u>6,060</u>
At 30 June 2008.	<u>5,125</u>	<u>460</u>	<u>1,006</u>	<u>109</u>	<u>6,700</u>

	Leasehold building	Plant and machinery	Furniture, fixtures, equipment, and motor vehicles	Leasehold improvements	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
30 April 2010					
Cost:					
At 1 July 2009.	5,356	987	1,861	114	8,318
Additions.	—	182	330	—	512
Disposals.	(5,362)	—	—	—	(5,362)
Write-off.	—	—	—	(114)	(114)
Exchange realignment. . . .	6	4	74	—	84
At 30 April 2010.	<u>—</u>	<u>1,173</u>	<u>2,265</u>	<u>—</u>	<u>3,438</u>
Depreciation:					
At 1 July 2009.	518	527	1,203	10	2,258
Depreciation charge for the period.	130	151	131	3	415
Write-back on disposals. . .	(649)	—	—	—	(649)
Write-off.	—	—	—	(13)	(13)
Exchange realignment. . . .	1	1	33	—	35
At 30 April 2010.	<u>—</u>	<u>679</u>	<u>1,367</u>	<u>—</u>	<u>2,046</u>
Net book value:					
At 30 April 2010.	<u>—</u>	<u>494</u>	<u>898</u>	<u>—</u>	<u>1,392</u>
At 30 June 2009.	<u>4,838</u>	<u>460</u>	<u>658</u>	<u>104</u>	<u>6,060</u>

The Group's building is located in Mainland China and are held under medium term leases.

The Group's building with carrying values of approximately HK\$4,833,000, HK\$5,125,000 and HK\$4,838,000 as at 30 June 2007, 2008 and 2009, respectively, was pledged to secure the banking facilities granted to the Group (Section 24).

Such property was provided as a rent-free accommodation to an executive director of the Company during the Relevant Periods. During the ten months ended 30 April 2010, the property has been disposed of to a director of the Company and his spouse at a consideration of approximately HK\$4,713,000, which is determined based on the carrying amount of the property at the date of transfer. No material gain or loss was resulted.

16. GOODWILL

	30 June			30 April
	2007	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At beginning of the year/period	1,223	1,223	15,772	15,772
Acquisition of a subsidiary (Section 29)	—	14,549	—	—
At end of the year/period	<u>1,223</u>	<u>15,772</u>	<u>15,772</u>	<u>15,772</u>

Impairment testing of goodwill

Goodwill acquired through business combination has been allocated to the following cash-generating units for impairment testing:

- Guangdong Qunhe cash-generating unit; and
- Donglisheng cash-generating unit.

Guangdong Qunhe cash-generating unit

The Directors considered that the goodwill of HK\$1,223,000 arose from the acquisition of Guangdong Qunhe is insignificant to the Group.

Donglisheng cash-generating unit

The recoverable amount of this cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period. The key assumptions for the cash flow projections are the budgeted gross margin which is the average gross profit margin achieved in the year immediately before budget years. The discount rate applied to cash flow projections was 11.28%, 6.13% and 8.83% for the years ended 30 June 2008 and 2009 and the ten months ended 30 April 2010, respectively, which is before tax and reflects specific risks relating to the cash-generating unit.

The Directors believe that any reasonably possible change in any of these assumptions would not cause the carrying amount of the cash-generating units to exceed the recoverable amount. Since the recoverable amounts of the cash-generating units are higher than their carrying amounts, the Directors consider that the carrying value of the goodwill at each of the reporting dates is not impaired.

17. INTANGIBLE ASSET

	Trade name
	HK\$'000
Cost:	
At 1 July 2007	—
Acquisition of a subsidiary (Section 29)	32,064
Exchange realignment	2,067
At 30 June 2008 and 1 July 2008	34,131
Exchange realignment	(99)
At 30 June 2009 and 1 July 2009	34,032
Exchange realignment	96
At 30 April 2010	34,128
Accumulated amortisation:	
At 1 July 2007	—
Provided during the year	—
Exchange realignment	—
At 30 June 2008 and 1 July 2008	—
Provided during the year	3,787
Exchange realignment	(5)
At 30 June 2009 and 1 July 2009	3,782
Provided during the period	3,156
Exchange realignment	14
At 30 April 2010	6,952
Net carrying amount:	
At 30 April 2010	27,176
At 30 June 2009	30,250
At 30 June 2008	34,131

18. DEFERRED TAX

The following are the major deferred tax liabilities recognised and their movements:

	Fair value adjustments arising from acquisition of subsidiaries
	HK\$'000
At 1 July 2006, 30 June 2007 and 1 July 2007	—
Acquisition of a subsidiary	8,016
Exchange realignment	<u>517</u>
At 30 June 2008 and 1 July 2008	8,533
Deferred tax credited to the combined income statement (Section 12)	(947)
Exchange realignment	<u>(23)</u>
At 30 June 2009 and 1 July 2009	7,563
Deferred tax credited to the combined income statement (Section 12)	(789)
Exchange realignment	<u>20</u>
At 30 April 2010	<u><u>6,794</u></u>

The following are the major deferred tax assets recognised and their movements:

	Deductible temporary differences
	HK\$'000
At 1 July 2006, 30 June 2007, 1 July 2007, 30 June 2008 and 1 July 2008	—
Deferred tax credited to the combined income statement (Section 12)	<u>845</u>
At 30 June 2009 and 1 July 2009	845
Deferred tax credited to the combined income statement (Section 12)	<u>90</u>
At 30 April 2010	<u><u>935</u></u>

The Group has no tax losses available for offsetting against future taxable profits.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

As at 30 June 2008, 30 June 2009 and 30 April 2010, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings of the Group's subsidiaries established in Mainland China. In the opinion of the Directors, it is not probable that these subsidiaries will distribute their earnings accrued after 1 January 2008 in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK\$2,592,000, HK\$10,290,000 and HK\$20,106,000 at 30 June 2008, 30 June 2009 and 30 April 2010, respectively.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

19. INVENTORIES

	30 June			30 April
	2007	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Raw materials	689	1,039	711	3,797
Finished goods	1,460	1,909	3,826	3,642
	<u>2,149</u>	<u>2,948</u>	<u>4,537</u>	<u>7,439</u>

20. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The Group generally grants credit terms of up to one year for certain amounts of products to its distributors at the beginning of each calendar year on a case-by-case basis. The Group generally requires such distributors to settle payment for these products at the end of each calendar year. No credit is provided for any further placement from these distributors and payment is required before any further delivery is made to them. Included in the receivables balances at 30 June 2007, 2008, 2009 and 30 April 2010 were amounts of HK\$10,086,000, HK\$42,831,000, HK\$79,497,000 and HK\$101,271,000, respectively, which represented amounts granted under such terms. The Group generally offers a credit term of up to 90 days to its retailers.

The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing. The Group's trade receivable mainly related to a few recognised and creditworthy customers.

At 30 June 2007, 2008, 2009 and 30 April 2010, an aged analysis of the trade receivables, based on the invoice date, is as follows:

	30 June			30 April
	2007	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within 90 days	14,446	35,128	37,384	103,233
91 to 180 days	—	16,474	57,213	1,843
181 to 365 days	—	—	267	175
	<u>14,446</u>	<u>51,602</u>	<u>94,864</u>	<u>105,251</u>

At 30 June 2007, 2008, 2009 and 30 April 2010, the analysis of trade receivables that were past due but not impaired is as follows:

	Total	Neither past	Past due but		Over 365
		due nor	not impaired		
		impaired	1 to 180 days	181 to 365	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
30 June 2007	14,446	14,446	—	—	—
30 June 2008	51,602	51,602	—	—	—
30 June 2009	94,864	91,428	3,169	267	—
30 April 2010	<u>105,251</u>	<u>105,076</u>	<u>175</u>	<u>—</u>	<u>—</u>

The Group's neither past due nor impaired trade receivables mainly represent sales made to recognised and creditworthy customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June			30 April
	2007	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Prepayments	2	288	147	2,286
Prepaid sales and promotional expenses	48,967	67,259	56,468	52,518
Deposits and other receivables	<u>1,054</u>	<u>3,141</u>	<u>1,249</u>	<u>22,039</u>
	50,023	70,688	57,864	76,843
Less: non-current portion	<u>(16,535)</u>	<u>—</u>	<u>—</u>	<u>(13,594)</u>
	<u>33,488</u>	<u>70,688</u>	<u>57,864</u>	<u>63,249</u>

At 30 June 2007, 2008, 2009 and 30 April 2010, the net balance of deposits and other receivables was neither past due nor impaired. Financial assets included in the above balances relate to receivables for which there was no recent history of default.

22. CASH AND CASH EQUIVALENTS

	30 June			30 April
	2007	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	2,882	3,367	7,486	48,509
Non-pledged time deposits with original maturity of less than three months when acquired	<u>7,812</u>	<u>812</u>	<u>—</u>	<u>—</u>
Cash and cash equivalents	<u>10,694</u>	<u>4,179</u>	<u>7,486</u>	<u>48,509</u>

Notes:

At 30 June 2007, 2008, 2009 and 30 April 2010, the Group's cash and cash equivalents denominated in RMB amounted to HK\$2,407,000, HK\$2,671,000, HK\$6,522,000, and HK\$13,290,000, respectively. RMB is not freely convertible into other currencies. Under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day to one month depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

23. TRADE PAYABLES

An aged analysis of the trade payables as at 30 June 2007, 2008, 2009 and 30 April 2010, based on the invoice date, is as follows:

	30 June			30 April
	2007	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within 90 days	4,817	8,523	22,481	23,829
Over 90 days	183	189	124	584
	<u>5,000</u>	<u>8,712</u>	<u>22,605</u>	<u>24,413</u>

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

24. INTEREST-BEARING BANK LOAN

Maturity	30 June			30 April
	2007	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current				
Current portion of long term bank loan — secured July 2007 - December 2010	117	131	130	—
Non-current				
Bank loan — secured July 2008 - April 2027	<u>2,237</u>	<u>2,333</u>	<u>2,196</u>	<u>—</u>
	<u>2,354</u>	<u>2,464</u>	<u>2,326</u>	<u>—</u>

The bank loan bears interest at interest rates announced by the People's Bank of China per annum and is denominated in RMB.

	30 June			30 April
	2007	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Analysed into bank loan repayable:				
Within one year or on demand.	117	131	130	—
In the second year	118	130	130	—
In the third to fifth years, inclusive	<u>2,119</u>	<u>2,203</u>	<u>2,066</u>	<u>—</u>
	<u>2,354</u>	<u>2,464</u>	<u>2,326</u>	<u>—</u>

The Group's bank loan is secured by a charge over the leasehold building of the Group with net carrying amounts of approximately HK\$4,833,000, HK\$5,125,000 and HK\$4,838,000 as at 30 June 2007, 2008 and 2009 respectively.

During the ten months ended 30 April 2010, upon the disposal of the staff quarter to Mr. She, the above bank loan, being the respective mortgage loan for the property, has been assumed by Mr. She accordingly.

25. OTHER PAYABLES AND ACCRUALS

	30 June			30 April
	2007	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other payables.	2,886	5,716	6,560	9,007
Accruals and other liabilities	<u>560</u>	<u>912</u>	<u>945</u>	<u>6,396</u>
	<u>3,446</u>	<u>6,628</u>	<u>7,505</u>	<u>15,403</u>

Other payables are non-interest bearing and have an average term of two to three months.

26. ISSUED CAPITAL

The Company was incorporated on 9 February 2010 with an authorised share capital of HK\$100,000 divided into 1,000,000 shares of HK\$0.1 each. On 9 February 2010, one nil-paid share was allotted and issued to Codan Trust Company (Cayman) Limited, which was transferred to Mr. Tang (the "Nil-Paid Share") on the same date.

Immediately prior to the transfer of the entire issued shares in Magic Holdings as more fully explained in "Corporate reorganisation" in "Appendix VI — Statutory and General Information" to the Prospectus, a further 2,288,299 nil-paid shares were allotted and issued to the shareholders of Magic Holdings in proportion to their shareholdings in Magic Holdings and the Nil-Paid Shares was transferred by Mr. Tang to MG Company ("MGL"), a company wholly-owned by him. The said 2,288,300 nil-paid shares were subsequently paid up in the manner described in "Corporate reorganisation" in "Appendix VI — Statutory and General Information" to the Prospectus.

Save for aforesaid, the Company has not carried out any other businesses since the date of its incorporation and up to the date of this report.

Share award

Further details of Magic Holding's share award plan are included in Section 27.

27. SHARE AWARD PLAN

During the ten months ended 30 April 2010, the then shareholders and the directors of Magic Holdings have approved the adoption of the share award plan ("Share Award Plan"). The purpose of the Share Award Plan is to recognise and reward the contribution of the eligible participants to the growth and development of the Group. These eligible participants include any employee of, shareholder of, entity that provides support to and adviser or consultant of, the Group or its invested entities or any other entity who have contributed or may contribute by way of any business arrangement to the development and growth of the Group.

The Share Award Plan would be in force for a period of 10 years commencing on the date on which the Share Award Plan was adopted.

Under the rules of the Share Award Plan (the "Plan Rules"), the Share Award Plan will be administered by the directors of Magic Holdings, who are also the directors of the Company. Mr. She and Mr. Tang ("Trustees") are the trustees of the Share Award Plan. It is contemplated that the initial pool of shares of Magic Holdings ("Magic Shares") under the Share Award Plan, would be formed by the allotment and issue of Magic Shares which equals 5% of the issued shares of Magic Holdings on a fully diluted basis as enlarged by the allotment and issue of the Magic Shares under the Share Award Plan. The issue and allotment of the Magic Shares to the Trustees is conditional upon completion of the pre-listing share swap between the Company and the then equity holders of Magic Holdings (the "Pre-listing Share Swap") and will be issued and allotted to the Trustees immediately prior to the completion of the Pre-listing Share Swap.

The directors of Magic Holdings will determine the eligibility of those eligible participants to which share awards are to be made and the number of awarded shares to those selected participants pursuant to the Share Award Plan based on the selected participants' contribution to the development and growth of the Group. The Trustees will hold the awarded shares on behalf of the selected participants until they are vested in accordance with the Plan Rules.

Pursuant to share award letters issued on 30 October 2009 to those eligible participants, an aggregate of 1,144 shares were granted at nil consideration. The awards were deemed to be irrevocably accepted by those eligible participants on 30 October 2009 unless the eligible participants notify the Group to decline to accept the award within three business days in writing after the receipt of such notice. There is no other performance target required except the eligible participant remained as the employee of the Group. Among the share awards granted on 30 October 2009, 458 share awards are granted to certain directors and/or shareholders of the Company, who are also the senior management

of the Group, (“collectively Management Shareholders”), and would be vested immediately on 6 September 2010 according to the rule of the Share Award Plan. The remaining 686 share awards are granted to the senior management and employees of the Group, which are evenly divided into five tranches and would be vested (upon the latter of the date immediately prior to the Pre-listing Share Swap and the dates as detailed below) in the following manner:

Maximum number of awarded shares to be vested	Period
20% of the total number of awarded shares	Period commencing from the first business day immediately after 30 June 2011 (but excluding 30 June 2011), and where the listing of the Company’s shares has not taken place on or before 30 June 2010, the vesting period shall be postponed to the first business day immediately after 30 June 2012 (but excluding 30 June 2012)
40% of the total number of awarded shares	Period commencing from the first business day immediately after 30 June 2012 (but excluding 30 June 2012), and where the listing of the Company’s shares has not taken place on or before 30 June 2010, the vesting period shall be postponed to the first business day immediately after 30 June 2013 (but excluding 30 June 2013)
60% of the total number of awarded shares	Period commencing from the first business day immediately after 30 June 2013 (but excluding 30 June 2013), and where the listing of the Company’s shares has not taken place on or before 30 June 2010, the vesting period shall be postponed to the first business day immediately after 30 June 2014 (but excluding 30 June 2014)
80% of the total number of awarded shares	Period commencing from the first business day immediately after 30 June 2014 (but excluding 30 June 2014), and where the listing of the Company’s shares has not taken place on or before 30 June 2010, the vesting period shall be postponed to the first business day immediately after 30 June 2015 (but excluding 30 June 2015)
100% of the total number of awarded shares	Period commencing from the first business day immediately after 30 June 2015 (but excluding 30 June 2015), and where the listing of the Company’s shares has not taken place on or before 30 June 2010, the vesting period shall be postponed to the first business day immediately after 30 June 2016 (but excluding 30 June 2016)

Under the rule of the Share Award Plan as further detailed under Section 16 headed “Share Award Plan” included in the “Appendix VI — Statutory and General Information” to the Prospectus, the employees of the Group shall not have any right to receive any shares awarded to them under the Share Award Plan and all other interest attributable thereto unless and until the Share Award Plan trustee has transferred the legal and beneficial ownership of such awarded shares to them and the legal and beneficial ownership of those awarded shares vested in them. When the participant ceased to be the Group’s employee, the unvested shares would be retained by the trustees of the Share Award Plan.

The fair values of the above share awards granted to the Management Shareholders and employees were HK\$9,280,000 and HK\$12,434,000, respectively, of which the Group recognised an aggregate share award expenses of HK\$8,451,000 in the combined income statement during the ten months ended 30 April 2010. The fair values of the share awards granted have been estimated, with reference to a valuation performed by Jones Lang LaSalle Sallmanns Limited, an independent professional valuer, by applying the discounted cash flow model using cash flow projections based on financial budgets covering a five-year period approved by the senior management. The discount rate applied to cash flow projections is 13.67%. The cash flows beyond five-year period of the Company are extrapolated using a growth rate of 3%.

The directors of the Company believes that the estimated fair values of the above share awards resulting from the above valuation technique are reasonable and the fair values are appropriate at the end of the reporting period.

Subsequent to the end of reporting period, on 19 August 2010, Mr. Tang, Mr. Luo, Mr. She, three of the Management Shareholders (the "Three Management Shareholders") and four senior management and employees ("Other grantees") of the Group each entered into an agreement with Magic Holdings whereby each of them will not accept an aggregate number of 490 shares, divided as to 412 shares and 78 shares between the Three Management Shareholders and the Other grantees, respectively, of Magic Holdings proposed to be granted to them under the Share Award Plan. The Other grantees are Ms. Wen Yan Juan, who is the spouse of Mr. Luo, Ms. Wu Xiaoqing, who is the spouse of Mr. She, Ms. She Minghong, who is the sister of Mr. She and Mr. Zhang Quan, who is the brother of Mr. Zhang Peter Y., a director of HHBP, the ultimate holding company of the Company.

28. RESERVES

The amounts of the Group's reserves and the movements therein for the Relevant Periods and the ten months ended 30 April 2010 are presented in the combined statements of changes in equity of the Group.

29. BUSINESS COMBINATION

During the year ended 30 June 2008, the Group acquired 70% equity interest in Donglisheng from independent third parties. All the purchase consideration for the acquisition was settled in the form of cash.

The fair values of the identifiable assets and liabilities of Donglisheng as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Sections	Fair value	Previous carrying
		recognised on acquisition	amount
		HK\$'000	HK\$'000
Net assets acquired:			
Property, plant and equipment	15	28	28
Intangible assets	17	32,064	—
Inventories		858	858
Trade receivables		98	98
Prepayments, deposits and other receivables		98	98
Cash and bank balances		75	75
Tax payables		(13)	(13)
Other payables and accruals		(170)	(170)
Deferred tax liabilities	18	(8,016)	—
Non-controlling interest		<u>(7,507)</u>	<u>(292)</u>
		17,515	<u>682</u>
Goodwill on acquisition	16	<u>14,549</u>	
Satisfied by cash		<u>32,064</u>	

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of Donglisheng is as follows:

	HK\$'000
Cash consideration	(32,064)
Cash and bank balances acquired	<u>75</u>
Net outflow of cash and cash equivalents in respect of the acquisition of Donglisheng	<u>(31,989)</u>

Since its acquisition, Donglisheng contributed HK\$716,000 to the Group's revenue and HK\$181,000 to the combined profit for the year ended 30 June 2008.

Had the combination taken place at the beginning of the year ended 30 June 2008, the revenue of the Group and the profit of the Group for the year ended 30 June 2008 would have been HK\$254,508,000 and HK\$34,087,000, respectively.

30. DISPOSAL OF A SUBSIDIARY

During the ten months ended 30 April 2010, Guangdong Qunhe, a wholly-owned subsidiary, entered into a sale and purchase agreement with an independent third party to dispose of the 100% equity interest in Hainan Yangpu at a cash consideration of RMB1,000,000 (approximately HK\$1,136,000).

	<u>Sections</u>	<u>HK\$'000</u>
Net assets disposed of:		
Other receivable		1,136
Release of exchange fluctuation reserve upon disposal . . .		<u>(1,369)</u>
		(233)
Gain on disposal of a subsidiary	7, 9	<u>1,369</u>
		<u>1,136</u>
Satisfied by cash		<u>1,136</u>

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of Hainan Yangpu is as follows:

	<u>2009</u>
	<u>HK\$'000</u>
Cash consideration	1,136
Cash and bank balances disposed of	<u>—</u>
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	<u>1,136</u>

31. NOTES TO COMBINED STATEMENTS OF CASH FLOWS

- (a) In July 2008, Guangdong Qunhe has distributed dividends of RMB29,216,000 (approximately HK\$33,191,000) and RMB12,521,000 (approximately HK\$14,204,000), to GHMM and Mr. She, the then equity holder of Guangdong Qunhe, respectively, immediately before it was acquired by Guangzhou Magic. Pursuant to an agreement entered amongst Mr. She, MG Company Limited ("MGL") and the Group, RMB3,000,000 (approximately HK\$3,403,000) of the dividend payable to Mr. She was assigned to GHMM for compensating the loss of HHBP upon the disposal of Guangdong Qunhe to Guangzhou Magic. The dividends were included in the amounts due to related parties as at 30 June 2009.

- (b) During the year ended 30 June 2009, Guangzhou Magic acquired 100% equity interest in Guangdong Qunhe from GHMM and Mr. She, the then equity holders of Guangdong Qunhe, at cash consideration of RMB7,000,000 (approximately HK\$7,941,000) and RMB3,000,000 (approximately HK\$3,403,000), respectively. Such amounts were included in the amounts due to related parties as at 30 June 2009.
- (c) As detailed in Sections 15 and 24 above, during the ten months ended 30 April 2010, the leasehold building has been disposed of to Mr. She, a director of the Company, and his spouse, at a consideration of HK\$4,713,000, which represented the carrying value of that building at the date of transfer. The respective mortgage loan with a carrying amount of HK\$2,265,000 has also been assumed by Mr. She. Pursuant to the disposal agreement entered amongst Mr. She, MGL and the Group, the net consideration of HK\$2,448,000 has been settled via the current account with MGL and included in amounts due to related parties as at 30 April 2010.
- (d) As detailed in note (b) to the combined statements of changes in equity, HK\$29,963,000 of the capital contribution to Magic Holding during the year ended 30 June 2008 was settled via the current account with the immediate holding company and included in amounts due to related parties as at 30 June 2008.

32. CONTINGENT LIABILITIES

As at 30 June 2007, 2008, 2009 and 30 April 2010, the Group did not have any significant contingent liabilities.

33. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its factory and office premises under operating lease arrangements. Leases for properties are negotiated for terms of one to three years with an option for renewal after that date, at which times all terms will be renegotiated.

As at 30 June 2007, 2008, 2009 and 30 April 2010, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June			30 April
	2007	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	934	679	1,036	380
In the second to fifth years, inclusive.	78	96	114	21
	1,012	775	1,150	401

34. COMMITMENTS

Other than the operating lease commitments detailed in Section 33 above, the Group had the following capital commitments at the end of the reporting periods:

	30 June			30 April
	2007	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contracted, but not provided for:				
Capital contributions to MG JV				
Group	—	—	—	11,603

35. RELATED PARTY TRANSACTIONS

- (a) (i) As detailed in Sections 15, 24 and 31 above, during the ten months ended 30 April 2010, the Group disposed of the leasehold building to Mr. She, a director of the Company and his spouse at a consideration of HK\$4,713,000, which represented the carrying value of that building at the date of transfer. The respective mortgage loan with a carrying amount of HK\$2,265,000 has also been taken up by Mr. She. The net consideration of HK\$2,448,000 has been settled via the current accounts with MGL. The transaction is non-recurring.
- (ii) During the year ended 30 June 2009 and the ten months ended 30 April 2010, the Group has engaged Guangzhou Zhonghe Cosmetic Company Limited ("GZCCL"), of which the spouse of Mr. She and the daughter of Mr. Luo are two of the equity holders and directors, for production of the Group's products. The Company has paid service fee of HK\$34,000 and HK\$205,000 to GZCCL during the year ended 30 June 2009 and the ten months ended 30 April 2010, respectively. Further details of the arrangement with GZCCL have been set out under the section "Production" on pages 118 to 120 to the Prospectus. The transaction is non-recurring since GZCCL ceased to be related after the spouse of Mr. She and the daughter of Mr. Luo have resigned as the directors of GZCCL and transferred their interests in GZCCL to independent third parties in March 2010.

- (b) An analysis of the balances with related parties is as follows:

Due from related parties:

	30 June			30 April
	2007	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fellow subsidiaries	33,103	46,725	45,165	122,561
Ultimate holding company	—	2,735	4,073	4,073
	<u>33,103</u>	<u>49,460</u>	<u>49,238</u>	<u>126,634</u>

Due to related parties:

	30 June			30 April
	2007	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fellow subsidiaries	3,631	12,736	10,040	39
Shareholder	—	—	14,204	11,691
Immediate holding company . . .	50,143	20,180	20,180	20,180
Ultimate holding company	1,147	—	—	—
	<u>54,921</u>	<u>32,916</u>	<u>44,424</u>	<u>31,910</u>

The outstanding balances with related parties are interest-free, unsecured and repayable on demand.

The directors confirmed that all the balances with related parties will be settled prior to the listing of shares of the Company on the Stock Exchange.

- (c) Compensation of key management personnel of the Group

Further details of Directors' emoluments are included in Section 10 above.

- (d) As further detailed in paragraph headed "(d) License of Trademarks and Outlook Designs under the IP Right Assignment Agreement" on pages 146 and 147 of the Prospectus, the Group have been using certain trademarks and outlook designs in connection with its business which were registered under the name of Mr. She. On 15 March 2010, Magic Holdings, a wholly-owned subsidiary of the Company and Mr. She agreed to transfer the trademark and outlook designs to the Group at nil consideration. Prior to the signing of the transfer agreement for trademarks and outlook designs, Mr. She agreed to grant a licence to the Group to use the trademarks and outlook designs at nil consideration.
- (e) Pursuant to five undertakings dated 6 September 2010 received from Mr. Tang, Mr. She, Mr. Luo, Mr. Ho Cheung Ping, Dawnie and HHBP, they agree to bear their respective proportionate amount of expenses relating to the listing of the shares of the Company.

36. DERIVATIVE FINANCIAL INSTRUMENTS

As mentioned in note (a) in the combined statements of changes in equity and further detailed in paragraph headed "Strategic Investment" on pages 79 to 84 of the Prospectus, during the ten months ended 30 April 2010, Magic Holdings has entered into a share subscription agreement (the "Subscription Agreement") with three strategic investors, namely, Atlantis China Star Fund Limited ("Atlantis"), China Cinda (HK) Investments Management Company Limited ("Cinda") and Good Record Holdings Limited ("Good Record") (collectively "Subscribers").

Pursuant to the Subscription Agreement, the Subscribers subscribed for and Magic Holdings allotted and issued an aggregate of 1,739 subscription shares (the "Subscription Shares") credited as fully paid to the Subscribers at an aggregate consideration of HK\$62,400,000 (the "Subscription Price"). The Subscribers are entitled to subscription price adjustment (the "Subscription Price Adjustment") if (i) the amount of audited consolidated net profits of the Group for the year ending 30 June 2010; or (ii) the forecast profits of the Group for the year ending 30 June 2010 as disclosed in the Prospectus, is less than HK\$90 million.

In addition, the Subscribers are also entitled to an investment price adjustment (the "Investment Price Adjustment") if the unit cost of the Subscription Price exceeds 70% of the final offer price of the Company's share upon listing.

Furthermore, if (i) proceedings have been initiated against the Group under any applicable bankruptcy, insolvency law or any such proceedings having an analogous effect and such proceedings shall not have been discharged or stayed within a period of twenty-one days; (ii) a default or breach is made by the Group in the performance or observance of any material covenants, conditions, warranties, representations, undertakings or other provisions contained in the Subscription Agreement and on the respective parts to be performed or observed and such default is incapable of remedy or, if capable of remedy, is not remedied within the period of twenty-one days next following the service by any of the Subscriber on notice specifying brief details of such default and requiring such default to be remedied; (iii) the Group ceasing to carry on its principal business in relation to the production and sale of cosmetic products to a material extent; (iv) Magic Holdings or the Company failed to list on the Stock Exchange or any recognised stock exchange by 31 December 2010 or a later date as agreed in writing by the Subscribers and (v) the actual audited net earnings of the Group for the year ending 30 June 2010 are less than HK\$65 million, the Subscribers are entitled to exercise a put option (the "Put Option") by directing the Company to purchase all or part of the Subscription Shares at the price which is the sum of the Subscription Price and a 15% premium over the Subscription Price or a prorata amount of it. The conditions (i) to (iv) would be extinguished automatically and cease to have any effect on and after the date of listing of the shares of Magic Holdings or the Company on the relevant stock exchange (the "Listing"). The condition (v) would survive after Listing if Listing occurs before the release of the financial statements of the Group for the year ending 30 June 2010.

The Subscription Shares with embedded derivative features are split into equity and derivative components according to their fair values for measurement purposes. On issuance of the Subscription Shares, the fair value of the derivative component was determined based on valuation; and this amount is carried as a derivative component of a liability until extinguished upon the fulfilment of the conditions as detailed above. The remainder of the proceeds was allocated to the equity component and included in the share capital and share premium accounts. The derivative component is remeasured at the end of each reporting periods and any gains or losses arising from change in fair value are recognised in the combined income statements.

The fair value of the Subscription Price Adjustment, the Investment Price Adjustment and the Put Option (the "Derivatives") are estimated by management with reference to a valuation performed by Asset Appraisal Limited, an independent professional valuer, by using a Binomial Option Pricing Model.

The Directors have estimated the fair value of the Derivatives as HK\$22,345,000 at the date of completion of the subscription, which has been deducted from the share premium arose in the issue of the Subscription Shares by the same amount. The fair value changes in Derivatives of HK\$14,063,000 have been included in the combined income statement during the ten months ended 30 April 2010.

37. FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

There are no financial instruments measured at fair value as at 30 June 2007, 30 June 2008 and 30 June 2009 and during the respective years then ended.

As at 30 April 2010, the Group held the following financial instruments measured at fair value:

Liabilities measured at fair value as at 30 April 2010:

	Level 1	Level 2	Level 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Derivative financial instruments	<u>—</u>	<u>—</u>	<u>8,282</u>	<u>8,282</u>

The movements in fair value measurements in Level 3 during the ten months ended 30 April 2010 are as follows:

	HK\$'000
Derivative financial instruments:	
At 1 July 2009	—
At the date of initial recognition (Section 36)	22,345
Fair value gains recognised in the income statement (Section 36)	<u>(14,063)</u>
At 30 April 2010	<u>8,282</u>

38. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at each of the dates of the statement of financial position are as follows:

Financial assets - Loans and receivables

	30 June			30 April
	2007	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables	14,446	51,602	94,864	105,251
Amounts due from related parties . . .	33,103	49,460	49,238	126,634
Financial assets included in prepayments, deposits and other receivables	1,054	3,141	1,249	8,038
Cash and cash equivalents	<u>10,694</u>	<u>4,179</u>	<u>7,486</u>	<u>48,509</u>
	<u>59,297</u>	<u>108,382</u>	<u>152,837</u>	<u>288,432</u>

Financial liabilities at amortised cost

	30 June			30 April
	2007	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables	5,000	8,712	22,605	24,413
Financial liabilities included in other payables and accruals	2,886	5,116	6,560	9,007
Derivative financial instruments	—	—	—	8,282
Interest-bearing bank loan	2,354	2,464	2,326	—
Amounts due to related parties	<u>54,921</u>	<u>32,916</u>	<u>44,424</u>	<u>31,910</u>
	<u>65,161</u>	<u>49,208</u>	<u>75,915</u>	<u>73,612</u>

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are business risk, interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group does not have any written risk management policies and guidelines. Generally, the Group introduces prudent strategies on its risk management. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below:

(a) Business risk

The Group conducts its operations in Mainland China, and accordingly, it is subject to special considerations and significant risks. These include risks associated with, among others, the political, economic and legal environment, the influence of national authorities over pricing and the financing regulations.

(b) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank loan with a floating interest rate.

The Group regularly reviews and monitors the floating interest rate borrowings in order to manage its interest rate risks. The interest-bearing loan, cash and short term deposits are stated at amortised cost and not revalued on a periodic basis. Floating rate interest income and expenses are credited/charged to the combined income statement as earned/incurred.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's net profit (through the impact on floating rate borrowings).

	Increase in interest rate (basis points)	Decrease in net profit and equity
		HK\$'000
Year ended 30 June 2009	100	17
Year ended 30 June 2008	100	15
Year ended 30 June 2007	100	16

(c) Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from the substantial portion of its revenues and expenses generated and incurred by its operating units in RMB.

The following table demonstrates the sensitivity as at the end of the reporting period to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's profit (due to changes in the fair value of monetary assets and liabilities).

		Increase/(decrease) in profit			
		Year ended 30 June			Ten months ended 30 April
		2007	2008	2009	2010
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
If Hong Kong dollar weakens against RMB	+5%	181	161	—	—
If Hong Kong dollar strengthens against RMB	-5%	(181)	(161)	—	—

(d) Credit risk

The Group trades only with recognised and creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, amount due from related companies and other receivables arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in Section 20.

(e) Liquidity risk

The Group aims at maintaining a balance between continuity of funding and flexibility through maintaining sufficient cash and cash equivalents and available banking facilities. The Directors have reviewed the Group's working capital and capital expenditure requirements and determined that the Group has no significant liquidity risk.

The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations to meet its debt obligations as they fall due, and its ability to obtain external financing to meet its committed future capital expenditure.

The Directors have carried out a detailed review of the cash flow forecast of the Group for the next twelve months from this report date. Based on this forecast, the Directors have determined that adequate liquidity exists to finance the working capital and capital expenditure requirements of the Group during that period. In preparing the cash flow forecast, the Directors have considered historical cash requirements of the Group as well as other key factors, including the availability of the above-mentioned loans financing which may impact the operations of the Group prior to the end of the next twelve months after the date of this report.

The Directors are of the opinion that the assumptions and sensitivities which are included in the cash flow forecast are reasonable. However, as with all assumptions in regard to future events, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realised.

The maturity profile of the Group's financial liabilities as at the end of the respective reporting periods, based on the contractual undiscounted payments, was as follows:

	30 June 2007			
	On demand	Less than 1 year	Over 1 year	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables.	—	5,000	—	5,000
Financial liabilities included in other payables and accruals	—	2,886	—	2,886
Interest-bearing bank loan.	—	258	2,815	3,073
Amounts due to related parties	<u>54,921</u>	<u>—</u>	<u>—</u>	<u>54,921</u>
	<u>54,921</u>	<u>8,144</u>	<u>2,815</u>	<u>65,880</u>
	30 June 2008			
	On demand	Less than 1 year	Over 1 year	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables.	—	8,712	—	8,712
Financial liabilities included in other payables and accruals	—	5,716	—	5,716
Interest-bearing bank loan.	—	251	2,791	3,042
Amounts due to related parties	<u>32,916</u>	<u>—</u>	<u>—</u>	<u>32,916</u>
	<u>32,916</u>	<u>14,679</u>	<u>2,791</u>	<u>50,386</u>

30 June 2009				
	On demand	Less than 1 year	Over 1 year	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables.	—	22,605	—	22,605
Financial liabilities included in other payables and accruals	—	6,560	—	6,560
Interest-bearing bank loan.	—	213	2,571	2,784
Amounts due to related parties	<u>44,424</u>	<u>—</u>	<u>—</u>	<u>44,424</u>
	<u>44,424</u>	<u>29,378</u>	<u>2,571</u>	<u>76,373</u>
30 April 2010				
	On demand	Less than 1 year	Over 1 year	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables.	—	24,413	—	24,413
Financial liabilities included in other payables and accruals	—	9,007	—	9,007
Derivative financial instruments.	—	8,282	—	8,282
Amounts due to related parties	<u>31,910</u>	<u>—</u>	<u>—</u>	<u>31,910</u>
	<u>31,910</u>	<u>41,702</u>	<u>—</u>	<u>73,612</u>

(f) Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Group monitors capital using a gearing ratio, which is total bank loans divided by equity attributable to equity holders of the Company. The gearing ratios as at the end of each reporting periods were as follows:

	30 June			30 April
	2007	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest-bearing bank loans	2,354	2,464	2,326	—
Equity attributable to equity holders of the Company	36,177	132,670	163,109	312,761
Gearing ratio	6.51%	1.86%	1.43%	—

40. EVENTS AFTER THE REPORTING PERIOD

In addition to the subsequent events detailed elsewhere in this report, the Group had the following events after the reporting period:

- (a) On 6 September 2010, the companies now comprising the Group completed the Reorganisation in preparation for the listing of the Company's shares on the Stock Exchange. Further details of the Reorganisation are set out in the paragraph headed "Corporate reorganisation" in "Appendix VI — Statutory and general information" to the Prospectus.
- (b) On 3 September 2010, the Group has entered into two trademarks license agreements with Hanbul and It's Skin Co Ltd. In addition, on the same date, the Group has entered into an exclusive distribution agreement with Hanbul. Further details of such agreements are set out in paragraphs headed "(b) Hanbul Trademarks License Agreement" and "(c) It's Skin Trademark License Agreement", and "(a) Exclusive distribution of skincare and cosmetics products" on page 145 and pages 147 to 148, respectively, of the Prospectus.

41. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 April 2010.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong

The information set out in this appendix does not form part of the accountants' report prepared by Ernst & Young, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set out in Appendix I to this prospectus, and is included herein for information only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA FULLY DILUTED ESTIMATED EARNINGS PER SHARE

The following unaudited pro forma fully diluted estimated earnings per Share for the year ended 30 June 2010 has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on 1 July 2009. This unaudited pro forma fully diluted estimated earnings per Share has been prepared for illustrative purposes only and, because of its nature, it may not give a true picture of the financial results of the Group following the Global Offering and the Reorganisation.

Estimated combined profit attributable to equity holders

for the year ended 30 June 2010 (Notes 1 and 2) Not less than HK\$110 million

Unaudited pro forma estimated earnings per Share —

fully diluted (Note 3) Not less than HK\$0.1375

Notes:

- (1) The estimated combined profit attributable to equity holders for the year ended 30 June 2010 is extracted from the section headed "Financial Information — Profit Estimate". The bases and assumptions on which the profit estimate for the year ended 30 June 2010 have been prepared are summarised in Appendix III to this prospectus.
- (2) The estimated combined profit attributable to equity holders of the Company for the year ended 30 June 2010 prepared by the Directors is based on the audited combined results of the Group for the ten months ended 30 April 2010 and an estimate of the combined results for the remaining two months ended 30 June 2010. The estimate has been prepared on the basis of the accounting policies being consistent in all material aspects with those currently adopted by the Group as set out in Section 4 of the Accountants' Report, contained in Appendix I to this prospectus.
- (3) The calculation of the estimated earnings per Share on a pro forma fully diluted basis of HK\$0.1375 is based on the estimated combined profit attributable to equity holders of the Company for the year ended 30 June 2010, assuming that the Company had been listed since 1 July 2009 and a total of 800,000,000 shares have been in issue during the entire year. The calculation of the pro forma fully diluted estimated earnings per Share does not take into account any Shares which may be issued upon the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the number of Shares in issue would be 830,000,000 shares, and the estimated earnings per Share on the pro forma fully diluted basis mentioned above would be HK\$0.1325.

B. UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted net tangible assets of the Group is based on the combined net tangible assets attributable to equity holders of the Company derived from the audited financial statements of the Group as at 30 April 2010, as set out in Appendix I to this prospectus and adjusted as follows:

	Combined net tangible assets of the Group attributable to equity holders of the Company as at 30 April 2010	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted combined net tangible assets	Unaudited pro forma adjusted combined net tangible assets per Share
	HK\$ ('000) (Note 1)	HK\$ ('000) (Note 2)	HK\$ ('000)	HK\$ (Note 3)
Based on the Offer Price of HK\$2.40 per Share	269,813	433,000	702,813	0.88
Based on the Offer Price of HK\$3.30 per Share	269,813	608,000	877,813	1.10

Notes:

- (1) The audited combined net tangible assets of the Group attributable to equity holders of the Company as at 30 April 2010 is arrived at after deducting intangible asset of HK\$27.2 million and goodwill of HK\$15.8 million from the audited combined net assets of the Group attributable to equity holders of the Company of HK\$312.8 million.
- (2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$2.40 and HK\$3.30 per Share, after deduction of the underwriting fees and other related expenses payable by the Company. No account has been taken of the Shares which may be allotted and issued upon exercise of the Over-allotment Option.
- (3) The unaudited pro forma adjusted combined net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraph and on the basis that 800,000,000 Shares are in issue assuming that the Global Offering has been completed on 30 April 2010, which takes no account any Shares which may be allotted and issued upon exercise of the Over-allotment Option.

C. COMFORT LETTER ON UNAUDITED PRO FORMA FINANCIAL INFORMATION



18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

10 September 2010

The Directors
Magic Holdings International Limited
Unit 3405, 34th Floor
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

and

BOCI Asia Limited ("BOCI")
26th Floor, Bank of China Tower
1 Garden Road
Hong Kong

Dear Sirs,

We report on the unaudited pro forma adjusted combined net tangible assets and unaudited pro forma estimated earnings per share - fully diluted (the "Unaudited Pro Forma Financial Information") of Magic Holdings International Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which have been prepared by the directors of the Company (the "Directors") for illustrative purposes only, to provide information about how the global offering of 200,000,000 shares of HK\$0.1 each in the capital of the Company might have affected the financial information presented, for inclusion in Appendix II to the prospectus of the Company dated 10 September 2010 (the "Prospectus"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out in Appendix II to the Prospectus.

Respective Responsibilities of the Directors and Reporting Accountants

It is the responsibility solely of the Directors to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments, and discussing the Unaudited Pro Forma Financial Information with the Directors. This engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or a review made in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the bases stated, that such bases are consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the Directors, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at 30 April 2010 or any future dates; or
- the estimated earnings per share of the Group for the year ended 30 June 2010 or any future periods.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the bases stated;

- (b) such bases are consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong

Our estimated combined profit attributable to equity holders of our Company for the year ended 30 June 2010 is set out in the section headed “Financial Information — Profit Estimate” in this prospectus.

A. BASES

Our Directors have prepared the estimated combined profit attributable to our equity holders for the year ended 30 June 2010, based on the audited combined results for the ten months ended 30 April 2010 and an estimate of the combined results of the Group for the remaining two months ended 30 June 2010. The estimate has been prepared on a basis consistent in all material respects with the accounting policies currently adopted by the Group as summarised in the accountants’ report of our Company as set out in Appendix I of this prospectus.

B. LETTER FROM ERNST & YOUNG

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from our Company's reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong in connection with the estimate of our combined profit attributable to equity holders for the year ended 30 June 2010.



18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

10 September 2010

The Directors
Magic Holdings International Limited
Unit 3405, 34th Floor
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

and

BOCI Asia Limited ("BOCI")
26th Floor, Bank of China Tower
1 Garden Road
Hong Kong

Dear Sirs,

We have reviewed the calculations of and the accounting policies adopted in arriving at the estimate of the combined profit attributable to equity holders of Magic Holdings International Limited (the "Company", together with its subsidiaries, hereinafter collectively referred to as the "Group") for the year ended 30 June 2010 (the "Profit Estimate") as set out in the paragraph headed "Profit Estimate" under the section headed "Financial Information" in the prospectus of the Company dated 10 September 2010 (the "Prospectus") for which the directors of the Company (the "Directors") are solely responsible.

We conducted our work with reference to Auditing Guideline 3.341 "Accountants' Report on Profit Forecasts" issued by the Hong Kong Institute of Certified Public Accountants.

The Profit Estimate has been prepared by the Directors based on the audited combined results of the Group for the ten months ended 30 April 2010 and an estimate of the combined results of the Group for the two months ended 30 June 2010.

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Estimate has been properly compiled in accordance with the bases made by the Directors as set out in Part A of Appendix III to the Prospectus, and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountants' report dated 10 September 2010, the text of which is set out in Appendix I to the Prospectus.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong

C. LETTER FROM THE SOLE SPONSOR

The following is the text of a letter, prepared for inclusion in this prospectus, received by our Directors from the Sole Sponsor, in connection with the estimate of the combined profit attributable to our equity holders for the year ended 30 June 2010.

**BOCI INTERNATIONAL****BOCI Asia Limited**

26/F, Bank of China Tower,
1 Garden Road,
Central, Hong Kong

The Directors
Magic Holdings International Limited

10 September 2010

Dear Sirs,

We refer to the estimate of the combined profit attributable to equity holders of Magic Holdings International Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) for the year ended 30 June 2010 (the “**Profit Estimate**”) as set out in the prospectus issued by the Company dated 10 September 2010 (the “**Prospectus**”).

We understand that the Profit Estimate has been prepared by the directors of the Company based on the audited combined results of the Group for the ten months ended 30 April 2010 and an estimate of the combined results of the Group for the remaining two months ended 30 June 2010.

We have discussed with you the bases made by the directors of the Company as set out in Appendix III to the Prospectus upon which the Profit Estimate has been made. We have also considered the letter dated 10 September 2010 addressed to yourselves and ourselves from Ernst & Young, Certified Public Accountants, Hong Kong, regarding the accounting policies and calculations upon which the Profit Estimate has been made.

On the basis of the information comprising the Profit Estimate and on the basis of the accounting policies and calculations adopted by you and reviewed by Ernst & Young, Certified Public Accountants, Hong Kong, we are of the opinion that the Profit Estimate, for which you as directors of the Company are solely responsible, has been made after due and careful enquiry.

Yours faithfully,
For and on behalf of
BOCI Asia Limited

Daniel Ng
Managing Director
Head of Corporate Finance

Marcus Woo
Director

The following is the text of the letter, summary of valuations and valuation certificates received from DTZ Debenham Tie Leung Limited in connection with its opinion of market values of the properties held in the PRC as at 30 June 2010 prepared for the purpose of incorporation in this prospectus.



16th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

10 September 2010

The Directors
Magic Holdings International Limited
Unit 3405, 34/F
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road
Central
Hong Kong

Dear Sirs,

Instructions, Purpose & Date of Valuation

In accordance with your instructions for us to value the properties (the “**Properties**”) which are held by Magic Holdings International Limited (the “**Company**”) or its subsidiaries (hereinafter together referred to as the “**Group**”) in the People’s Republic of China (the “**PRC**”), we confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of market values of the Properties as at 30 June 2010 (the “**date of valuation**”).

Basis of Valuation

Our valuation of each of the Properties represents its market value which in accordance with the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors is defined as “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

Valuation Assumption

Our valuations of each of the Properties exclude an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

In the course of our valuations of the Properties situated in the PRC, we have assumed that transferable land use rights in respect of the Properties for their respective specific term at nominal annual land use fees have been granted and that any premium payable has already been fully paid. We have relied on the information and advice given by Group and the opinion of the Company's PRC legal adviser, GFE Law Office, regarding the titles to the properties and the interests in the Properties. In valuing the Properties, we have assumed that the owners have enforceable title to the Properties and have free and uninterrupted rights to use, occupy or assign the Properties for the whole of the unexpired term as granted.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the Properties nor any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Properties are free from encumbrances, restrictions and outgoings of any onerous nature which could affect their values.

We have valued the whole interest in the Properties.

Method of Valuation

We have valued the Property in Group I, which is held for future development in the PRC, with direct comparison method by making reference to comparable sales evidence as available in the relevant market.

The Properties in Group II, which are leased by the Group in the PRC, are considered to have no commercial value due mainly to the prohibition against assignment and subletting or otherwise due to the lack of substantial profit rents.

In valuing the Properties, we have complied with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors.

Source of Information

We have relied to a very considerable extent on the information given by the Group and the opinion of the Group's PRC legal adviser as to the PRC laws. We have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, identification of properties, particulars of occupancy, development scheme, tenancy details, site and floor areas and all other relevant matters.

Dimension, measurements and areas included in this valuation report are based on the information provided to us and are therefore only approximation. We have had no reason to doubt the truth and accuracy of the information provided to us by Group which is material to the valuation. We were also advised that no material facts have been omitted from the information supplied.

We would point out that the copies of documents provided to us are mainly compiled in Chinese characters and the transliteration into English represents our understanding of the contents. We would therefore advise the Company to make reference to the original Chinese edition of the documents and consult your legal adviser regarding the legality and interpretation of these documents.

Title Investigation

We have been provided by the Group with copies or extracts of documents. However, we have not searched the original documents to verify ownership or to ascertain any amendments. All documents have been used for reference only and all dimensions, measurements and areas are approximate.

Site Inspection

We have inspected the exterior, and where possible, the interior of the Properties. However, we have not carried out any investigations to determine the suitability of the soil conditions and the services etc. for any future development. Our valuation is prepared on the assumption that these aspects are satisfactory and that no unexpected expenses or delays will be incurred during the construction period. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the Properties are free of rot, infestation or any other structural defects. No tests were carried out to any of the services.

We have not been able to carry out detailed on-site measurements to verify the site and floor areas of the Properties and we have assumed that the areas shown on the copies of documents handed to us are correct.

Currency

Unless otherwise stated, all sums stated in our valuations are in Renminbi, the official currency of the PRC.

We attach herewith a summary of valuations and our valuation certificates.

Yours faithfully,
for and on behalf of
DTZ Debenham Tie Leung Limited
Philip C Y Tsang
Registered Professional Surveyor
China Real Estate Appraiser
Msc, MRICS, MHKIS
Director

Note: Mr. Philip C Y Tsang is a Registered Professional Surveyor who has over 17 years' experience in the valuation of properties in the PRC.

Contributing PRC valuers of DTZ Guangzhou Office with professional qualifications include, but not limited to, China Real Estate Appraiser and China Land Valuer.

SUMMARY OF VALUATIONS

Property	Market Value in existing state as at 30 June 2010 RMB	Attributable interest to the Group %	Market Value in existing state as at 30 June 2010 attributable to the Group RMB
Group I — Property held by the Group for future development in the PRC			
1. A piece of industrial land, Lot No. SDK-B-9, north of Kaiyuan Avenue, south west of Yonghe Tunnel Exit, Luogang District, Guangzhou, Guangdong Province, the PRC	No commercial value (Please see Note below.)	100%	No commercial value
<i>Note:</i> Application for the Certificate of Real Estate Ownership of the Property is being processed. Since the title certificate of the Property has not been issued, we have assigned no commercial value to it. However, on the assumption that the Certificate of Real Estate Ownership will be issued in due course, the Market Value in existing state as at 30 June 2010 of the Property would be RMB11,950,000.			
Group II — Properties leased by the Group in the PRC			
2. Room 2503, No. 27-1 Baiyun Road, Yuexiu District, Guangzhou, Guangdong Province, the PRC	No commercial value		No commercial value
3. Room 1501-1504, Tianyi Plaza, No. 644 Tongfu East Road, Haizhu District, Guangzhou, Guangdong Province, the PRC	No commercial value		No commercial value
4. Level 2, No. 62-78 Shendun Village Section of Guangpan Highway, Zhongcun Town, Panyu District, Guangzhou, Guangdong Province, the PRC	No commercial value		No commercial value

VALUATION CERTIFICATE

Group I — Property held by the Group for future development in the PRC

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 June 2010
1. A piece of industrial land, Lot No. SDK-B-9, north of Kaiyuan Avenue, south west of Yonghe Tunnel Exit, Luogang District, Guangzhou, Guangdong Province, the PRC	<p>The Property comprises a piece of land with a site area of 19,905.99 sq. m. (approximately 30 Mu).</p> <p>The Property will be developed into an industrial development with a total planned gross floor area of 49,764.58 sq.m.</p> <p>The land use rights of the Property would be granted for a term of 50 years for industrial use.</p>	The property is currently a vacant land pending for development.	No commercial value (Please see Note 1 below.)

Notes:

- (1) Application for the Certificate of Real Estate Ownership of the Property is being processed. Since the title certificate of the Property has not been issued, we have assigned no commercial value to it. However, on the assumption that the Certificate of Real Estate Ownership will be issued in due course, the Market Value in existing state as at 30 June 2010 of the Property would be RMB11,950,000.
- (2) According to Contract for Grant of State-owned Land Use Rights No. 440116-2010-000001 dated 18 January 2010:
- | | | |
|------------------------|---|---|
| Grantee | : | Guangzhou MG Bio-technology Co., Ltd.
(廣州美即生物科技有限公司) |
| Lot No. | : | SDK-B-9 |
| Location | : | North of Kaiyun Avenue, southwest of Yonghe Tunnel Exit
(開源大道以北、永和隧道口西南方) |
| Land Use | : | Industrial |
| Land Use Term | : | Granted for a term of 50 years from date of contract. |
| Site Area | : | 19,905.99 sq.m. |
| Land Grant Fee | : | RMB11,950,000 |
| Plot Ratio | : | 1.0 ~ 2.5 |
| Total Gross Floor Area | : | 49,764.58 sq.m. for factories and ancillary facilities. |
| Building Covenant | : | To commence construction before 21 July 2010 and to complete construction before 21 January 2012. |
- (3) According to Business License dated 25 June 2007, Guangzhou MG Bio-technology Co., Ltd. (廣州美即生物科技有限公司) was established as a limited company with a registered capital of RMB40,000,000 for an operation period from 27 December 2003 to 12 January 2027.

(4) According to the PRC legal opinion:

- (i) Guangzhou MG Bio-technology Co., Ltd. (廣州美即生物科技有限公司) has obtained Business License and is established legally;
- (ii) Guangzhou MG Bio-technology Co., Ltd. (廣州美即生物科技有限公司) obtains the land use rights according to the legal procedures;
- (iii) Guangzhou MG Bio-technology Co., Ltd. (廣州美即生物科技有限公司) has fully settled the land grant fee; and
- (iv) Guangzhou MG Bio-technology Co., Ltd. (廣州美即生物科技有限公司) has no legal obstacle to obtain the Certificate of Real Estate Ownership.

(5) The status of title and grant of major approvals and licences in accordance with the information provided by Group and the opinion of the PRC legal adviser are as follows:

Certificate of Real Estate Ownership	No
Contract for Grant of State-owned Land Use Rights	Yes
Business License	Yes

VALUATION CERTIFICATE

Group II — Properties leased by the Group in the PRC

Property	Description and tenancy particulars	Market Value in existing state as at 30 June 2010
2. Room 2503, No. 27-1 Baiyun Road, Yuexiu District, Guangzhou, Guangdong Province, the PRC	<p>The Property comprises an office unit on Level 25 of a 31-storey office building completed in 1999.</p> <p>The Property has a gross floor area of 122 sq.m.</p> <p>The Property is leased to the Group for office use for a term of 2 years from 11 January 2009 to 10 January 2011 at a monthly rent of RMB6,685.</p> <p>According to the PRC legal opinion, the tenancy has been registered and is legal and valid.</p>	No commercial value
3. Room 1501-1504, Tianyi Plaza, No. 644 Tongfu East Road, Haizhu District, Guangzhou, Guangdong Province, the PRC	<p>The Property comprises an office unit on Level 15 of a 26-storey office and hotel complex completed in late 1980's.</p> <p>The Property has a gross floor area of 446 sq.m.</p> <p>The Property is leased to the Group for office use for a term of 4 years from 11 July 2006 to 10 July 2011 at a current monthly rent of RMB24,782.40.</p> <p>According to the PRC legal opinion, the tenancy has been registered and is legal and valid.</p>	No commercial value
4. Level 2, No. 62-78 Shendun Village Section of Guangpan Highway, Zhongcun Town, Panyu District, Guangzhou, Guangdong Province, the PRC	<p>The Property comprises a unit on Level 2 of a 2-storey building completed in 1995.</p> <p>The Property has a gross floor area of 509.60 sq.m.</p> <p>The Property is leased to the Group for a term of 4 years from 2 June 2007 to 1 June 2011 at a current monthly rent of RMB6,334. The Property is occupied by the Group as a workshop.</p> <p>According to the PRC legal opinion, the lessor has not provided title document of the Property, the PRC lawyer is unable to comment on the validity of the tenancy. The tenancy has also not been registered, however, it would not affect the validity of the tenancy and the lessee would not be liable to administrative punishment.</p>	No commercial value

Set out below is a summary of certain provisions of the memorandum of association of the Company and the Articles and of certain aspects of the Companies Law.

1. MEMORANDUM OF ASSOCIATION

The memorandum of association provides that the Company's objects are unrestricted. The objects of the Company are set out in Clause 3 of the memorandum of association which is available for inspection at the address and during the period specified in the paragraph headed "Documents available for inspection" specified in appendix VII to this prospectus. As an exempted company, the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 6 September 2010. The following is a summary of certain provisions of the Articles.

(a) Directors

(i) Power to allot and issue shares

Without prejudice to any special rights or restrictions for the time being attaching to any shares or any class of shares, any share may be issued upon such terms and conditions and with such preferred, deferred or other special rights, or such restrictions, whether as regards dividend, voting, return of capital or otherwise, as the Company may from time to time by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Directors may determine) and any preference shares may be issued on terms that they are liable to be redeemed upon the happening of a specified event or upon a given date and either at the option of the Company or at the option of the holder. The Directors may issue warrants to subscribe for any class of shares or securities of the Company on such terms as they may from time to time determine.

All unissued shares in the Company shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and generally on such terms they shall in their absolute discretion think fit, but so that no shares shall be issued at a discount.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries although the Directors may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or relevant statutes of the Cayman Islands to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and the giving of security for loans to Directors

Where the shares of the Company remain listed on the Stock Exchange or on a stock exchange in such other territory as the Directors may from time to time decide, the Company may not make, without the approval of, or ratification by, the Company in general meeting, any loans to, or provide any guarantee, indemnity or security in respect of any loan to a Director or any of his associates, provided that the Articles do not prohibit the granting of any loan or the provision of any guarantee, indemnity or security (i) to be applied for, or in respect of a liability incurred for any business of the Company, (ii) for the purchase by a Director (or the repayment of a loan for his purchase) of a residence where the amount of the loan, the liability under the guarantee or indemnity or the value of the security does not exceed 80 per cent. of the fair market value of such residence nor 5 per cent. of the consolidated net asset value of the Company as shown in its latest audited accounts; provided that any such loan is on normal commercial terms and is secured by a legal charge over the residence; or, (iii) of any amount to, or in respect of a liability of, a company in which the Company has an equity interest, and the amount of such loan, or the liability assumed by the Company under such guarantee, indemnity or security, does not exceed its proportional interest in such company.

(v) Financial assistance to purchase shares of the Company or its holdings company

There are no provisions in the Articles relating to the giving by the Company of financial assistance for the purchase, subscription or other acquisition of shares of the Company or of its holding company. The law on this area is summarised in paragraph 4(b) below.

(vi) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of an auditor) in conjunction with his office of Director for such period and upon such terms as the Directors may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) as the Directors may determine. A Director may be or become a director or other officer of, or be otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profit or other benefit received by him as a director or officer of or from his interest in such other company. The Directors may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as they think fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other

company, or voting or providing for the payment of remuneration to the directors or officers of such other company. A Director shall not vote or be counted in the quorum on any resolution of the Directors concerning his own appointment or the appointment of any of his associates as the holder of any office or place of profit with the Company or any other company in which the Company is interested (including the arrangement or variation of the terms thereof, or the termination thereof).

Subject to the provisions of the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor will any contract with regard thereto or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. If to the knowledge of a Director, he or any of his associates, is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company, he must declare the nature of his or, as the case may be, his associate(s)' interest at the meeting of the Directors at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest or that of his associates then exists, or in any other case at the first meeting of the Directors after he knows that he or his associate(s) is or has become so interested.

Save as otherwise provided by the Articles, a Director may not vote (nor be counted in the quorum for the voting) on any resolution of the Directors approving any contract or arrangement in which he or any of his associate(s) is to his knowledge materially interested, and if he does so his vote will not be counted, but this prohibition will not apply to any of the following matters, namely:

- (aa) any contract or arrangement for the giving to the Director or his associate(s) of any security or indemnity in respect of money lent by him or any of them or obligations undertaken by him for the benefit of the Company;
- (bb) any contract or arrangement for the giving by the Company of any security to a third party in respect of a debt or obligation of the Company or any company in which the Company has an interest for which the Director or his associate(s) has himself/themselves guaranteed or secured in whole or in part;
- (cc) any contract or arrangement by a Director or his associate(s) to subscribe for shares or debentures or other securities of the Company to be issued pursuant to any offer or invitation to the members or debenture or other securities holders or to the public which does not provide the Director and his associate(s) any privilege not accorded to any other members or debenture or other securities holders or to the public;

- (dd) any contract or arrangement concerning an offer of the shares, debentures or other securities of or by the Company for subscription or purchase where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer and/or for the purposes of making any representations, the giving of any covenants, undertakings or warranties or assuming any other obligations in connection with such offer;
- (ee) any contract or arrangement in which the Director or his associate(s) is/are interested by virtue only of his/their interest in shares or debentures or other securities of the Company and/or his/their being the offeror or one of the offerors or is interested in one of the offerors for the purchase or effective acquisition of such shares, debentures or other securities;
- (ff) any contract or arrangement concerning any company in which he or his associate(s) is/are interested directly or indirectly whether as an officer or an executive or a member, other than a company in which the Director or his associates owns five per cent. or more of the voting equity capital or voting rights of any class of shares of such company (or of any third company through which his interest is derived), excluding shares which carry no voting rights at general meetings and no or nugatory dividend and return of capital rights, and excluding shares held directly or indirectly through the Company;
- (gg) any proposal or arrangement for the benefit of employees of the Company or its subsidiaries including a pension fund or retirement, death or disability benefit scheme or personal pension plan under which a Director, his associate(s) and employees of the Company or of any of its subsidiaries may benefit and which has been approved by or is subject to and conditional on approval by the relevant tax authorities for taxation purposes or relates to Directors, associate(s) of Directors and employees of the Company or any of its subsidiaries and does not give the Director or his associate(s) any privilege not accorded to the relevant class of officers of which the Director is a member and to whom such scheme or fund relates;
- (hh) any proposal concerning the adoption, modification or operation of any share scheme involving the issue or grant of options over shares or other securities by the Company to, or for the benefit of, the employees of the Company or its subsidiaries under which the Director or his associate(s) may benefit; and
- (ii) any contract, agreement, transaction or proposal concerning the purchase and/or maintenance of any insurance policy for the benefit of any Director, his associate(s), officer or employee pursuant to the Articles.

(vii) Remuneration

The Directors shall be entitled to receive by way of ordinary remuneration for their services such sum as is from time to time determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. The foregoing provisions shall not apply to a Director who holds any salaried employment or office in the Company except in the case of sums paid in respect of Directors' fees. The Directors shall also be entitled to be repaid all travelling, hotel and other expenses reasonably incurred by them respectively in or about the performance of their duties as Directors, including their expenses of travelling to and from Directors' meetings, committee meetings or general meetings, or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who performs any special or extra services to or at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be arranged. Notwithstanding the foregoing the remuneration of the managing director, joint managing director, deputy managing director or an executive Director or a Director appointed to any other office in the management of the Company may be fixed from time to time by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration is in addition to his ordinary remuneration as a Director.

The Directors also have power to establish and maintain or procure the establishment and maintenance of any contributory or non-contributory pension or superannuation funds for the benefit of, or to give or procure the giving of donations, gratuities, pensions, allowances or emoluments to, any persons who are or were at any time in the employment or service of the Company, or of any company which is a subsidiary of the Company, or is allied or associated with the Company or with any such subsidiary company, or who are or were at any time directors or officers of the Company or of any such other company as aforesaid, and holding or who have held any salaried employment or office in the Company or such other company, and the spouses, widows, widowers, families and dependants of any such persons and may make payments for or towards the insurance of any such persons. Any Director holding any such employment or office is entitled to participate in and retain for his own benefit any such donation, gratuity, pension, allowance or emolument.

(viii) Retirement, appointment and removal

At each annual general meeting, one-third of the Directors for the time being (or if their number is not three or a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last election but as between persons who became Directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot.

A Director is not required to retire upon reaching any particular age.

The Directors are entitled to attend and speak at all general meetings.

The number of Directors shall not be fewer than one. A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for breach of any contract of service between him and the Company). Subject to the statutes and the provisions of the Articles, the Company may from time to time in general meeting by ordinary resolution elect any person to be a Director either to fill a casual vacancy or as an additional Director. In addition, the Directors may appoint any person to be a Director either to fill a casual vacancy or as an additional Director but so that the number of Directors so appointed shall not exceed the maximum number determined from time to time by the members in general meeting. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at the meeting.

The Directors may from time to time entrust to and confer upon the chairman, deputy chairman, managing director, joint managing director, deputy managing director or executive director of the Company all or any of the powers of the Directors that they may think fit, provided that the exercise of all powers by such Director shall be subject to such regulations and restrictions as the Directors may from time to time make and impose. The Directors may delegate any of their powers to committees consisting of such member or members of their body and such other persons as they think fit, and they may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall in the exercise of the powers so delegated conform to any regulations that may from time to time be imposed upon it by the Directors.

(ix) Borrowing powers

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and uncalled capital or any part thereof. The Directors may raise or secure the payment or repayment of such sum or sums in such manner and upon such terms and conditions in all respects as they

think fit and in particular, but subject to the provisions of the Companies Law, by the issue of debentures, debenture stock, bonds or other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: The provisions summarised above, in common with the Articles in general, may be varied with the sanction of a special resolution of the Company.

(x) Qualification shares

Directors of the Company are not required under the Articles to hold any qualification shares.

(xi) Indemnity to Directors

The Articles contain provisions that provide indemnity to, among other persons, the Directors from and against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in their respective offices or trusts, except such (if any) as they shall incur or sustain through their own fraud or dishonesty.

(b) Alterations to constitutive documents

The memorandum of association of the Company may be altered by the Company in general meeting. The Articles may also be amended by the Company in general meeting. As more fully described in paragraph 3 below, the Articles provide that, subject to certain exceptions, a special resolution is required to alter the memorandum of association, to approve any alteration to the Articles and to change the name of the Company.

(c) Alterations of capital

The Company may from time to time by ordinary resolution:

- (i) increase its share capital;
- (ii) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; on any consolidation of fully paid shares into shares of larger amount, the Board may settle any difficulty which may arise as it thinks expedient and in particular (but without prejudice to the generality of the foregoing) may, as between the holders of the shares to be consolidated, determine which particular shares are to be consolidated into a consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after

deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;

- (iii) divide its shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions;
- (iv) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled;
- (v) sub-divide its shares or any of them into shares of smaller amount than is fixed by the memorandum of association, subject nevertheless to the Companies Law, and so that the resolution whereby any shares are sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares;
- (vi) change the currency of denomination of its share capital; and
- (vii) make provision for the issue and allotment of shares which do not carry any voting rights.

The Company may by special resolution reduce its issued share capital, any capital redemption reserve fund or other undistributable reserve in any manner authorised and subject to any conditions prescribed by law. The Company may apply its share premium account in any manner permitted by law.

(d) Variation of rights of existing shares or classes of shares

If at any time the capital is divided into different classes of shares, all or any of the special rights (unless otherwise provided for by the terms of issue of that class) attached to any class may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, save as to the provisions regarding the quorum of meetings, as to which see paragraph 2(s) below.

(e) Special resolutions — majority required

For so long as any part of the issued capital of the Company remains listed on the Stock Exchange, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives, or by proxy, at a general meeting of which notice of not less than 21 clear days' and not less than ten (10) clear business days, specifying the intention to propose the resolution as a special resolution, has been duly given. However, at all times while any part of the issued capital of the Company remains listed on the Stock Exchange, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right, (or, in the case of an annual general meeting, by all members) a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than 21 clear days' and less than ten (10) clear business days has been given.

(f) Voting rights

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for every share of which he is the holder which is fully paid or credited as fully paid (but so that no amount paid or credited as paid on a share in advance of calls or instalments is treated for the foregoing purposes as paid on the share). So long as the shares are listed on the Stock Exchange, where any member is, under the Listing Rules (as defined in the Articles), required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member (whether by way of proxy or, as the case may be, corporate representative) in contravention of such requirement or restriction shall not be counted. On a poll, a member entitled to more than one vote need not use all his votes or cast all his votes in the same way.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll.

Where a shareholder is a clearing house (as defined in the Articles) or a nominee of a clearing house, it may authorise such persons as it thinks fit to act as its representatives at any meeting of the Company or at any meeting of any class of shareholders provided that the authorisation shall specify the number and class of shares in respect of which each such representative is so authorised. Each person so authorised under the provisions of the Articles shall be entitled to exercise the same rights and powers as if such person was the registered holder of the shares of the Company held by the clearing house (or its nominees) in respect of the number and class of shares specified in the relevant authorisation.

(g) Requirements for annual general meetings

For so long as any part of the issued capital of the Company remains listed on the Stock Exchange, an annual general meeting must be held once in every year and within not more than 15 months after the last preceding annual general meeting or such longer period as is permissible or not prohibited under the rules of the Stock Exchange on which any securities of the Company are listed with the permission of the Company.

(h) Accounts and audit

The Directors shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipts and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by law or are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts are to be kept at the principal office of the Company or at such other place as the Directors think fit and shall always be open to the inspection of the Directors. No member (not being a Director) or other person has any right to inspect any account or book or document of the Company except as conferred by the Companies Law or ordered by a court of competent jurisdiction or authorised by the Directors or by the Company in general meeting.

The Directors shall from time to time cause to be prepared and laid before the Company at its annual general meeting such profit and loss accounts, balance sheets, group accounts (if any) and reports and so long as any shares in the Company are listed on the Stock Exchange, the accounts of the Company shall be prepared and audited based on the generally accepted accounting principles of Hong Kong or the International Financial Reporting Standards or such other standards as the Stock Exchange may permit. Every balance sheet of the Company shall be signed on behalf of the Directors by two Directors and a copy of every balance sheet (including every document required by law to be comprised therein or attached or annexed thereto) and profit and loss account which is to be laid before the Company at its annual general meeting, together with a copy of the Directors' report and a copy of the auditors' report, shall not less than 21 days before the date of the meeting, be sent to every member of, and every holder of debentures of, the Company and every other person entitled to receive notices of general meetings of the Company under the Companies Law or of the Articles. Subject to due compliance with the Companies Law and the rules of the Stock Exchange, and to obtaining all necessary consents, if any, required thereunder and such consents being in full force and effect, such requirements shall be deemed satisfied in relation to any person by sending to the person in any manner not prohibited by the Companies Law and instead of such copies, a summary financial statement derived from the Company's annual financial statements and the directors' report thereon, which shall be in the form and containing the information required by applicable laws and regulation, provided that any person who is otherwise entitled to the annual financial statements of the Company and the directors' report thereon may, if he so requires by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon. If all or any of the

shares or debentures of the Company are for the time being (with the consent of the Company) listed or dealt in on any stock exchange, there shall be forwarded to such stock exchange such number of copies of such documents as may for the time being be required under its regulations or practice.

Auditors shall be appointed and their duties regulated in accordance with the Articles. Save as otherwise provided by such provisions the remuneration of the auditors shall be fixed by or on the authority of the Company at each annual general meeting, but in respect of any particular year, the Company in general meeting may delegate the fixing of such remuneration to the Directors.

(i) Notices of meetings and business to be conducted thereat

For so long as any part of the issued capital of the Company remains listed on the Stock Exchange, an annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which the passing of a special resolution is to be considered shall be called by notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings may be called by notice of not less than fourteen (14) clear days and not less than ten (10) clear business days. The notice shall specify the place, the day and the hour of meeting and particulars of resolutions to be considered at the meeting and, in case of special business, the general nature of that business.

(j) Transfer of shares

All transfers of shares must be effected by transfer in writing in the usual or common form or so long as any shares in the Company are listed on the Stock Exchange, such standard form prescribed by the Stock Exchange or in any other form acceptable to the Board and may be under hand only or, if the transferor or transferee is a clearing house or its nominee(s), by hand, by machine imprinted signature or by such other means of execution as the Directors may approve from time to time; and an instrument of transfer must be executed by or on behalf of the transferor and by or on behalf of the transferee and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof, provided that the Directors may in their absolute discretion dispense with the requirement for the production of a transfer in writing before registering a transfer of a share, and may accept mechanically executed transfers in any case.

The Directors may, in their absolute discretion, at any time and from time to time transfer or agree to transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Directors otherwise agree, no shares on the principal register shall be transferred to any branch register nor shall shares on any branch register be transferred to the principal register or any other register. All transfers and other documents of title must be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the transfer office for that register.

The Directors may in their absolute discretion and without assigning any reason therefor, refuse to register any transfer of any shares (not being fully paid shares) to a person of whom they do not approve and they may refuse to register the transfer of any shares (not being fully paid shares) on which the Company has a lien. The Directors may also refuse to register a transfer of shares (whether fully paid or not) in favour of more than four persons jointly or any share issued under any share option scheme for employees upon which a restriction on transfer imposed thereby shall subsist, or where the transfer is to an infant or a person of unsound mind or under other legal disability. If the Directors refuse to register a transfer, they must within two months after the date on which the transfer was lodged with the Company send to the transferor and transferee notice of the refusal and (if the shares concerned are fully paid shares) the reasons(s) for such refusal.

The Directors may, if applicable, decline to recognise an instrument of transfer unless the instrument of transfer is properly stamped, is in respect of only one class of share and is lodged at the relevant registration or transfer office accompanied by the relevant share certificate(s) and such other evidence as they may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may, on giving notice by advertisement in one English and one Chinese newspaper circulating in Hong Kong, be suspended at such times and for such periods as the Directors may from time to time determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole 30 days in any year.

(k) Power for the Company to purchase its own shares

The Articles provide that the power of the Company to purchase or otherwise acquire its shares is exercisable by the Directors upon such terms and conditions as they think fit subject to the conditions prescribed by the Companies Law.

(l) Power of any subsidiary to own securities in the Company

There are no provisions in the Articles relating to ownership of securities in the Company by a subsidiary.

(m) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency but no dividend may exceed the amount recommended by the Directors. The Company may also make a distribution out of share premium account subject to the provisions of the Companies Law.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends will be apportioned and paid pro rata according to the amounts paid or credited as paid on the shares during any portion or portions of the period in respect of which the dividend is paid. No amount paid on a share in advance of calls will for this purpose be treated as paid on the shares. The Directors may retain any dividends or other moneys payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may deduct from any dividend or bonus payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid in lieu of the whole or such part of the dividend as the Directors may think fit.

The Company may also upon the recommendation of the Directors by an ordinary resolution resolve in respect of any particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared the Directors may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends, bonuses or other distributions or the proceeds of the realisation of any of the foregoing unclaimed for one year after having been declared may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions or proceeds as aforesaid unclaimed for six years after having been declared may be forfeited by the Directors and, upon such forfeiture, shall revert to the Company and, in the case where any of the same are securities in the Company, may be re-allotted or re-issued for such consideration as the Directors think fit.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company or a meeting of the holders of any class of shares in the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him to vote on his behalf at a general meeting of the Company or at a class meeting. At any general meeting, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy. Proxies need not be members of the Company.

A proxy shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member.

(o) Corporate representatives

A corporate member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint any person or persons as its representative to attend and vote on its behalf. A corporate member represented by its representative is deemed to be present in person at the relevant meeting and its representative may vote on a poll on any resolution put at such meeting.

(p) Calls on shares and forfeiture of shares

The Directors may from time to time make such calls as it may think fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20 per cent. per annum as the Directors shall fix from the day appointed for the payment thereof to the time of actual payment, but the Directors may waive payment of such interest wholly or in part. The Directors may, if they think fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20 per cent. per annum as the Directors may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the Directors may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve a notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice will name a further day (not earlier than the expiration of fourteen days from the date of the notice) on or before which the payment required by the notice is to be made, and it will also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all moneys which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Directors shall in their discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20 per cent. per annum as the Board may prescribe.

(q) Inspection of register of members

For so long as any part of the share capital is listed on the Stock Exchange, any member may inspect the principal or branch register of the Company maintained in Hong Kong without charge and require the provision to him of copies or extracts thereof in all respect as if the Company were incorporated under and is subject to the Companies Ordinance (Cap. 32) of the laws of Hong Kong.

(r) Inspection of register of Directors

There are no provisions in the Articles relating to the inspection of the register of Directors and Officers of the Company, since the register is not open to inspection (as to which see paragraph 4(k) below).

(s) Quorum for meetings and separate class meetings

For all purposes the quorum for a general meeting shall be two members present in person and entitled to vote (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting convened to sanction the modification of class rights, the necessary quorum shall not be less than two persons holding or representing by proxy one-third in nominal value of the issued shares of that class and, where such meeting is adjourned for want of quorum, the quorum for the adjourned meeting shall be any two members present in person and entitled to vote or by proxy (whatever the number of shares held by them).

(t) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority members in relation to fraud or oppression. However, certain remedies are available to members of the Company under the Companies Law as summarised in paragraph 4(e) below.

(u) Procedures on liquidation

A resolution for a court or voluntary winding up of the Company must be passed by way of a special resolution.

If the Company shall be wound up, the surplus assets remaining after payment to all creditors are to be divided among the members in proportion to the capital paid up on the shares held by them respectively, and if such surplus assets shall be insufficient to repay the whole of the paid up capital, they are to be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them respectively, all subject to the rights of any shares issued on special terms and conditions.

If the Company shall be wound up (whether the liquidation is voluntary or by the court), the liquidator may, with the sanction of a special resolution, divide among the members in specie or kind the whole or any part of the assets of the Company and whether the assets consist of property of one kind or properties of different kinds and the liquidator may, for such purposes, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division is to be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any one or more class or classes of property and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like sanction, shall think fit, but so that no member shall be compelled to accept any shares or other assets upon which there is a liability.

(v) Untraceable members

The Company may sell the shares of any member if: (i) dividends or other distributions have been declared by the Company on at least three occasions during a period of 12 years and these dividends or distributions have been unclaimed on such shares; (ii) the Company has published an advertisement of its intention to sell such shares in English and in Chinese in one leading English and (unless unavailable) one leading Chinese newspaper circulating in the territory of the stock exchange on which the ordinary share capital of the Company is listed and a period of three months has elapsed since the date of the first publication of such notice; (iii) the Company has not at any time during the said periods of 12 years and three months received any indication of the existence of the member who is the holder of such shares or of a person entitled to such shares by death, bankruptcy or operations of law; and (iv) the Company has notified the stock exchange on which the ordinary share capital of the Company is listed of its intention to sell such shares. The net proceeds of any such sale will belong to the Company and upon the receipt of such net proceeds by the Company, the Company will become indebted to the former holder of such shares for an amount equal to the amount of such net proceeds.

(w) Stock

The Company may by ordinary resolution convert any fully paid shares into stock, and may from time to time by like resolution reconvert any stock into fully paid shares of any denominations. The holders of stock may transfer the same or any part thereof in the same manner, and subject to the same regulations as and subject to which the shares from which the stock arose might prior

to conversion have been transferred or as near thereto as circumstances admit, but the Directors may from time to time, if they think fit, fix the minimum amount of stock transferable and restrict or prohibit the transfer of fractions of that minimum, but so that such minimum shall not exceed the nominal amount of the shares from which the stock arose. No warrants to bearer shall be issued in respect of any stock. The holders of stock shall, according to the amount of the stock held by them, have the same rights, privileges and advantages as regards dividends, participation in assets on a winding-up, voting at meetings, and other matters, as if they held the shares from which the stock arose, but no such privilege of the Company shall be conferred by an amount of stock which would not, if existing in shares, have conferred such privilege or advantage. All such of the provisions of the Articles as are applicable to paid up shares shall apply to stock, and the words “share” and “shareholder” and “member” therein shall include “stock” and “stockholder”.

(x) Other provisions

The Articles provide that, to the extent that it is not prohibited by and is in compliance with the Companies Law, if any rights attaching to any warrants which the Company may issue after the date of this prospectus shall remain exercisable and the Company does any act which would result in the subscription price under such warrants being reduced below the par value of a Share, a subscription right reserve shall be established and applied in paying up the shortfall between the subscription price and the par value of a Share on any exercise of the warrants.

3. VARIATION OF MEMORANDUM AND ARTICLES OF ASSOCIATION

Subject to the rights of the Company set out in paragraph 2(c) above to amend its capital by ordinary resolution, the memorandum of association of the Company may be altered by the Company by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the memorandum of association (subject as provided above) or the Articles or to change the name of the Company. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three-fourths of the votes cast by such members of the Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than 21 clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of not less than 21 clear days’ notice and not less than ten (10) clear business days notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right.

4. THE COMPANIES LAW

The Company is incorporated in the Cayman Islands and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of the Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. The share premium account may be applied by a company subject to the provisions of its memorandum and articles of association in such manner as the company may from time to time determine including, but without limitation:

- (i) in paying distributions or dividends to members;
- (ii) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;
- (iii) in redeeming or purchasing its shares as provided in the Companies Law;
- (iv) in writing off (aa) the preliminary expenses of the company; or
(bb) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company;
- (v) in providing for the premium payable on redemption of any shares or of any debentures of the company.

No dividend or distribution may be paid to members out of the share premium account unless immediately following the date of the proposed payment, the company is able to pay its debts as they fall due in the ordinary course of business.

A company may issue preference shares and redeemable preference shares.

The Companies Law does not contain any express provisions dealing with the variation of rights of holders of different classes of shares.

(b) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands against the provision of financial assistance for the purchase, subscription or other acquisition of its shares, though on English common law principles, the directors have a duty to act in good faith for a proper purpose in the best interests of the company, and moreover, there are restrictions on any act which amounts to a reduction of capital. Accordingly, it may, depending on the circumstances be legitimate for the directors to authorise the provision by a company of financial assistance for the purchase, subscription or other acquisition of its own shares, or the shares of its holding company.

(c) Redemption and Purchase of shares and warrants by a company and its subsidiaries

A company may, if authorised by its articles of associations issue redeemable shares and, purchase its own shares, including any redeemable shares. Purchases and redemptions may only be effected out of the profits of the company or out of the proceeds of a fresh issue of shares made for the purpose, or, if so authorised by its articles of association and subject to the provisions of the Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of the shares to be purchased must be provided for out of profits of the company or out of the company's share premium account, or, if so authorised by its articles of association and subject to the provisions of the Companies Law, out of capital. Any purchase by a company of its own shares may be authorised by its directors or otherwise by or in accordance with the provisions of its articles. A payment out of capital for a redemption or purchase of a company's own shares is not lawful unless immediately following the date of the proposed payment the company is able to pay its debts as they fall due in the ordinary course of business. The shares so purchased or redeemed will be treated as cancelled and the company's issued, but not its authorised, capital will be diminished accordingly.

A company is not prohibited from purchasing and may purchase its own subscription warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. A company, whether a subsidiary or a holding company, may only purchase its own shares for cancellation if it is authorised to do so in its articles of association.

(d) Dividends and distributions

A company may not pay a dividend, or make a distribution out of share premium account unless immediately following the date on which the payment is proposed to be made, the company is able to pay its debts as they fall due in the ordinary course of business.

(e) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of a company to challenge (a) an act which is ultra vires the company or illegal (b) an act which constitutes a fraud against the minority and the wrong doers are themselves in control of the company, or (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of company (not being a bank) having a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the court shall direct.

Any shareholder of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company shall be wound up.

Generally, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the memorandum and articles of association of the company.

(f) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary is required, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(g) Accounting and auditing requirements

The Companies Law requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company. A company is required to keep such books of account as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(h) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(i) Taxation

There are no income, corporation, capital gains or other taxes in effect in the Cayman Islands on the basis of the present legislation. As an exempted company, the Company has received from the Governor-in-Counsel of the Cayman Islands pursuant to the Tax Concessions Law (1999 Revision) of the Cayman Islands, an undertaking that in the event of any change to the foregoing, the Company, for a period of 20 years from the date of the grant of the undertaking, will not be chargeable to tax in the Cayman Islands on its income or its capital gains arising in the Cayman Islands or elsewhere and that dividends of the Company will be payable without deductions of Cayman Islands tax. No capital or stamp duties are levied in the Cayman Islands on the issue, transfer or redemption of Shares.

(j) Stamp duty

Certain documents (which do not include contract, notes for the sale and purchase of, or instruments of transfer of, shares in Cayman Islands companies) are subject to stamp duty which is generally calculated on an ad valorem basis.

(k) Inspection of corporate records

Neither the members of a company nor the general public have the right to inspect the register of directors and officers, the minutes, accounts or, in the case of any exempted company, the register of members. The register of mortgages and charges must be kept at the registered office of the company and must be open to inspection by any creditor or member at all reasonable times.

Members of the public have no right to inspect the constitutive documents of a company but the memorandum and articles of association must be forwarded to any member of the company upon request. If no articles of association have been registered with the Registrar of Companies, each member has the right to receive copies of special resolutions of members upon request upon payment of a nominal fee.

The location of the registered office of a company is available to the general public upon request to the Registrar of Companies.

(l) Winding up

A company may be wound up by the Cayman Islands court on application presented by the company itself, its creditors or its contributors. The Cayman Islands court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Cayman Islands court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum of association expires, or the event occurs on the occurrence of which the memorandum of association provides that the company is to be dissolved. In the case of a

voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

Where a resolution has been passed for the voluntary winding up of a company, the court may make an order that the winding up should continue subject to the supervision of the court with such liberty to creditors, contributors or others to apply to the court as the court may think fit.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purposes of winding up the affairs of the company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting requires at least one month's notice called by Public Notice in the Cayman Islands or otherwise as the Registrar of Companies may direct.

FURTHER INFORMATION ABOUT OUR COMPANY AND OUR SUBSIDIARIES**1. Incorporation of our Company**

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law on 9 February 2010 with an authorised share capital of HK\$100,000 divided into 1,000,000 Shares. On 9 February 2010, one nil-paid Share was allotted and issued to Codan Trust Company (Cayman) Limited, which was transferred to Mr. Tang on the same date. Immediately prior to the transfer of the entire issued shares in Magic Holdings as described in paragraph 4 below, on 5 September 2010, a further 2,288,299 nil-paid Shares were allotted and issued to the shareholders of Magic Holdings in proportion to their shareholdings in the Company and the one nil-paid Share was transferred by Mr. Tang to MG Company Limited, a company wholly owned by him. The said 2,288,300 nil-paid Shares were subsequently paid up in the manner described in paragraph 4 below.

As our Company was incorporated in the Cayman Islands, we operate subject to the relevant laws and regulations of the Cayman Islands and our constitution which comprises a memorandum of association and the Articles. A summary of the relevant laws and regulations of the Cayman Islands and of our Company's constitution is set out in Appendix V to this prospectus.

2. Changes in share capital of our Company***(a) Increase in authorised share capital***

On 5 September 2010, the authorised share capital of our Company was increased from HK\$100,000 to HK\$200,000,000 by the creation of 1,999,000,000 new Shares pursuant to a resolution passed by the then sole Shareholder.

Immediately following the completion of the Global Offering and the Capitalisation Issue (taking no account of any Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme and the Over-allotment Option), our authorised share capital will be HK\$200,000,000 divided into 2,000,000,000 Shares, of which 800,000,000 Shares will be issued fully paid or credited as fully paid, and 1,200,000,000 Shares will remain unissued. Other than pursuant to the exercise of the Over-allotment Option or the options which may be granted under the Share Option Scheme, there is no present intention to issue any of the authorised but unissued share capital of our Company and, without the prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed in this paragraph and in the paragraphs headed "Incorporation of our Company", "Resolutions in writing of all the Shareholders passed on 6 September 2010" and "Corporate reorganisation" of this Appendix, there has been no alteration in the share capital of our Company since its incorporation.

(b) Founder shares

Our Company has no founder shares, management shares or deferred shares.

3. Resolutions in writing of all the Shareholders passed on 6 September 2010

By resolutions in writing of all the Shareholders passed on 6 September 2010:

- (a) our Company approved and adopted the Articles;
- (b) conditional on (aa) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus, (bb) the Offer Price having been determined; and (cc) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise, in each case on or before the day falling 30 days after the date of this prospectus:
 - (i) the Global Offering was approved and our Directors were authorised to allot and issue the Offer Shares pursuant to the Global Offering and such number of Shares as may be allotted and issued upon the exercise of the Over-allotment Option;
 - (ii) the rules of the Share Option Scheme, the principal terms of which are set out in the paragraph headed “Share Option Scheme” of this Appendix, were approved and adopted and our Directors were authorised to approve any amendments to the rules of the Share Option Scheme as may be acceptable or not objected to by the Stock Exchange, and at their absolute discretion to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options which may be granted under the Share Option Scheme and to take all such steps as may be necessary, desirable or expedient to carry into effect the Share Option Scheme;
 - (iii) conditional on the share premium account of our Company being credited as a result of the Global Offering, the Directors were authorised to capitalise HK\$59,542,340 standing to the credit of the share premium account of our Company by applying that sum in paying up in full at par 595,423,400 Shares for allotment and issue to the holders of Shares whose names appear on the register of members of our Company at the close of business on 6 September 2010 (or as they may direct) in proportion as nearly as possible without involving fractions so that no fraction of a share shall be allotted and issued to their then existing respective shareholdings in our Company and so that the Shares be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the then existing issued Shares and the Directors were authorised to give effect to such capitalisation;

- (iv) a general unconditional Issuing Mandate was given to our Directors to exercise all powers of our Company to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements in accordance with the Articles, or upon the exercise of any options which may be granted under the Share Option Scheme (but shall include Shares that may be allotted and issued to the Share Award Plan Trustee for the purpose of the Share Award Plan, which shall not exceed 10% of the total number of issued Shares as at the beginning of the relevant financial year) or under the Global Offering or the Capitalisation Issue or upon the exercise of the Over-allotment Option, Shares with an aggregate nominal amount of not exceeding the sum of (aa) 20% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option; and (bb) the nominal amount of the share capital of our Company which may be purchased by our Company pursuant to the authority granted to the Directors as referred to in sub-paragraph (vi) below, until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of the Company is required by the Articles or any applicable law to be held, or the passing of an ordinary resolution by Shareholders revoking or varying the authority given to our Directors, whichever occurs first;
 - (v) a general unconditional Repurchase Mandate was given to our Directors to exercise all powers of our Company to purchase Shares on the Stock Exchange or other stock exchange on which the securities of our Company may be listed and recognised by the SFC and the Stock Exchange for this purpose, with an aggregate nominal amount of not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option; until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles or any applicable law to be held, or the passing of an ordinary resolution by Shareholders revoking or varying the authority given to our Directors, whichever occurs first; and
 - (vi) the extension of the Issuing Mandate to allot, issue and deal with Shares pursuant to paragraph (iv) above to include the nominal amount of Shares which may be purchased or repurchased pursuant to paragraph (v) above.
- (c) the form and substance of the service agreements made between three of our executive Directors, namely Mr. Tang, Mr. She and Mr. Luo, and our Company, and the form and substance of each of the appointment letters made between two of our executive Directors, namely Mr. Chen Lei and Mr. Zhang Kun Mou and our independent non-executive Directors, and our Company were approved.

4. Corporate reorganisation

The companies comprising our Group underwent a reorganisation to rationalise our Group's structure in preparation for the Listing of the Shares on the Stock Exchange. The reorganisation involved the transfer to our Company by the then shareholders of Magic Holdings of an aggregate of 22,883 shares of US\$1 each of Magic Holdings, being the entire issued share capital of Magic Holdings, the intermediate holding company of our Group to our Company in consideration and in exchange for which our Company:

- (a) allotted and issued, credited as fully paid, 2,288,300 new Shares to the then shareholders of Magic Holdings; and
- (b) credited as fully paid at par the 2,288,300 nil paid Shares held by the then shareholders of Magic Holdings.

In addition to the acquisition of shares in Magic Holdings by our Company as referred to above, our Group also underwent the following corporate restructuring:

- (a) pursuant to a subscription and sale and purchase agreement dated 10 November 2009 and entered into between Magic Holdings, Hua Han and the First Strategic Investors, on 13 November 2009, the First Strategic Investors subscribed for and were allotted an aggregate of 1,739 new shares of US\$1 each in the capital of Magic Holdings at a total subscription price of HK\$62,400,000 (subject to adjustment), and on the same day, an aggregate of 1,887 shares of US\$1 each in the capital of Magic Holdings were transferred from Queenherb to the First Strategic Investors at a total consideration of HK\$67,704,000 (subject to adjustment).
- (b) pursuant to the Share Award Plan, an aggregate of 1,144 shares of Magic Holdings were allotted and issued to the Share Award Plan Trustee on 5 September 2010, among which 46 shares of Magic Holdings were transferred by the Share Award Plan Trustee to Mr. Ho on the same day in accordance with the terms of the relevant award letter. The remaining 1,098 shares of Magic Holdings were held by the Share Award Plan Trustee in accordance with the rules of the Share Award Plan, out of which 608 shares of Magic Holdings have been awarded to employees of our Group and will be vested in accordance with the terms and conditions of such awards and the rules of the Share Award Plan.

5. Changes in share capital of our subsidiaries

Our subsidiaries are listed in the accountants' report set out in Appendix I to this prospectus.

In addition to the alterations described in paragraph 4 above, the following alterations in the share capital of our subsidiaries took place within the two years immediately preceding the date of this prospectus.

- (a) on 1 July 2009, an aggregate of 19,800 shares in the capital of Magic Holdings were allotted and issued, at the par value of US\$1.00 each for cash, as to 9,702 shares to Queenherb, 8,910 shares to the Management Shareholders (as for Mr. Tang, to a company wholly owned by him and a company held on trust in his favour) and 1,188 shares to an independent investor.

6. Further information about our Group's PRC establishments

Our Group has interests in the registered capital of MG Cosmetics, Guangdong Qunhe, MG Bio-tech and Donglisheng in the PRC. A summary of the corporate information of each of the enterprises is set out as follows:

(a) *MG Cosmetics*

- (i) Name of the enterprise: 廣州美即化妝品有限公司 (Guangzhou MG Cosmetics Manufacture Co., Ltd.)
- (ii) Economic nature: Wholly foreign owned enterprise
- (iii) Registered owner: Magic Holdings (100%)
- (iv) Total investment: HK\$100,000,000
- (v) Registered capital: HK\$40,000,000
- (vi) Paid-up capital: HK\$40,000,000
- (vii) Attributable interest to our Group: 100%

- (viii) Term of operation: From 22 August 2003 to 22 August 2023
- (ix) Scope of business: Manufacturing, processing, research and development of general fluids (hair care and cleansing type, gel type, skincare type), cream and lotion (hair care and cleansing type, hair use type); sale of products of the company.

(b) Guangdong Qunhe

- (i) Name of the enterprise: 廣東群禾藥業有限公司 (Guangdong Qunhe Pharmaceutical Company Limited)
- (ii) Economic nature: Limited liability company
- (iii) Registered owner: MG Cosmetics (100%)
- (iv) Registered capital: RMB10,000,000
- (v) Paid-up capital: RMB10,000,000
- (vi) Attributable interest to the Group: 100%
- (vii) Scope of business: Wholesale of proprietary Chinese medicine, raw materials and manufacturing of antibiotics; chemical manufactured drug; technology development and sale of cosmetic products.

(c) MG Bio-tech

- (i) Name of the enterprise: 廣州美即生物科技有限公司 (Guangzhou MG Bio-technology Co., Ltd.)
- (ii) Economic nature: Wholly foreign owned enterprise
- (iii) Registered owner: Magic Holdings (100%)
- (iv) Total investment: HK\$78,000,000
- (v) Registered capital: HK\$78,000,000
- (vi) Paid-up capital: HK\$46,800,000 ^(Note)
- (vii) Attributable interest to the Group: 100%
- (viii) Term of operation: From 21 January 2008 to 8 November 2010

Note: Balance of the registered capital in the amount of HK\$31,200,000 is required to be paid on or before 31 December 2010.

- (ix) Scope of business: Manufacturing and processing of refined chemical industry materials (except dangerous chemicals), sale of products of the company and provision of technology transfer and technology consultation services.

(d) Donglisheng

- (i) Name of the enterprise: 北京東麗盛化妝品有限公司 (Beijing Donglisheng Cosmetics Company Limited)
- (ii) Economic nature: Limited liability company
- (iii) Registered owners: MG Bio-tech (70%)
Zhao Lizhi, a director and senior management of Donglisheng (30%)
- (iv) Registered capital: RMB5,000,000
- (v) Paid-up capital: RMB5,000,000
- (vi) Attributable interest to the Group: 70%
- (vii) Term of operation: From 20 January 2005 to 19 January 2055
- (viii) Scope of business: Wholesale of daily necessities, knitted products, clothing, stationary, sports products, jewelleryes, handcraft products, metalware and electric material, machineries, electronic products, chemical industrial products (excluding dangerous chemicals) and construction materials; import and export of products; technology import and export; agency of import and export.

7. Repurchase by our Company of its own securities

This paragraph includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by us of our own securities.

(a) Shareholders' approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company listed on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholder, either by way of general mandate or by specific approval of a particular transaction.

Note: Pursuant to a resolution in writing passed by all the Shareholders on 6 September 2010, the Repurchase Mandate was given to the Directors authorising any repurchase by our Company of Shares on the Stock Exchange or any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, of up to 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option and the Share Option Scheme, such mandate to expire at the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles or applicable Cayman Islands law to be held, or the passing of an ordinary resolution by Shareholders in general meeting revoking or varying the authority given to our Directors, whichever occurs first.

(b) Source of funds

Repurchases must be paid out of funds legally available for the purpose in accordance with the Articles and the Companies Law. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Under the Cayman Islands laws, any repurchases by us may be made out of our profits or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if so authorised by the Articles and subject to the Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of the Shares to be repurchased must be provided for out of our profits or from sums standing to the credit of our share premium account or, if authorised by the Articles and subject to the Companies Law, out of capital.

(c) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and the Shareholders for our Directors to have general authority from the Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made if our Directors believe that such repurchases will benefit our Company and the Shareholders.

(d) Funding of repurchases

In repurchasing securities, we may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules and the applicable laws of the Cayman Islands.

On the basis of the current financial position of our Group as disclosed in this prospectus and taking into account our current working capital position, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Group as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Group or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Group.

(e) General

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to our Company or our subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

If, as a result of a securities repurchase, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

No Connected Person of our Company has notified us that he/it has a present intention to sell Shares to our Company, or has undertaken not to do so if the Repurchase Mandate is exercised.

8. Registration under Part XI of the Companies Ordinance

Our Company has established our head office and a principal place of business in Hong Kong for the purpose of registration under Part XI of the Companies Ordinance at Unit 3405, 34/F, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road, Central, Hong Kong. Our Company was registered as a non-Hong Kong company under Part XI of the Companies Ordinance on 3 September 2010. Ms. Ng Wing Yin, the Company Secretary of our Company, has been appointed as an agent of our Company for the acceptance of service of process in Hong Kong.

FURTHER INFORMATION ABOUT THE BUSINESS OF OUR COMPANY

9. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the members of our Group within the two years preceding the date of this prospectus and are or may be material:

- (a) a share subscription and sale and purchase agreement dated 10 November 2009 and entered into between Magic Holdings, Hua Han as vendor and the First Strategic Investors as purchasers, pursuant to which the First Strategic Investors subscribed for and were allotted and issued an aggregate of 1,739 new shares of US\$1 each in the capital of Magic Holdings at a total subscription price of HK\$62,400,000 (subject to adjustment), and an aggregate of 1,887 shares of US\$1 each in the capital of Magic Holdings were transferred from Queenherb to the First Strategic Investors at a total consideration of HK\$67,704,000 (subject to adjustment);
- (b) the Magic-Hanbul JV Agreement;
- (c) a share purchase agreement in relation to Magic Holdings dated 6 September 2010 and entered into by Queenherb, Mr. She, MG Company Limited (a company wholly-owned by Mr. Tang), Charm Magna Limited (a company wholly-owned by an Independent Third Party on trust in favour of Mr. Tang) Mr. Luo, Mr. Ho, the Strategic Investors, Profit Avenue Limited and the Share Award Plan Trustee as vendors, our Company as purchaser for the acquisition of the entire issued share capital in Magic Holdings, in consideration of (i) the allotment and issue, credited as fully paid at par, of an aggregate of 2,288,300 new Shares as to 791,300 Shares to Queenherb, 861,200 Shares to the Management Shareholders (as for Mr. Tang, as to 200,000 Shares held through MG Company Limited, a company wholly-owned by him, and as to 85,600 Shares held through Charm Magna Limited, a company wholly-owned by an Independent Third Party on trust in his favour), 406,000 Shares to the Strategic Investors, 120,000 Shares to an independent investor and 109,800 Shares to the Share Award Plan Trustee and (ii) credited as fully paid at par, an aggregate of 2,288,300 nil-paid Shares then held as to 791,300 Shares by Queenherb, 861,200 Shares by the Management Shareholders (as for Mr. Tang, as to 200,000 Shares held through MG Company Limited, a company wholly-owned by him, and as to 85,600 Shares held through Charm Magna Limited, a company wholly-owned by an Independent Third Party on trust in his favour), 120,000 Shares by Profit Avenue Limited, 406,000 Shares by the Strategic Investors and 109,800 Shares by the Share Award Plan Trustee;
- (d) a deed of indemnity dated 9 September 2010 executed by Hua Han in favour of our Company for itself and as trustee for our subsidiaries stated therein containing the indemnities more particularly referred to in paragraph 17 of this Appendix;
- (e) a deed of non-competition dated 6 September 2010 executed by Hua Han, Mr. Tang, Mr. She and Mr. Luo as covenantors in favour of our Company (for itself and for the benefit of our subsidiaries where appropriate), details of which are set out in the paragraph headed "Non-compete undertaking" in the section headed "Relationship with Hua Han" in this prospectus; and
- (f) the Underwriting Agreement.

10. Connected transactions and related party transactions





Save as disclosed in the section headed “Connected Transactions” of this prospectus and in section 35 to the Accountants’ Report, the text of which is set out in Appendix I to this prospectus, during the two years immediately preceding the date of this prospectus, we have not engaged in any other material connected transactions or related party transactions.




11. Intellectual property rights of our Group

(a) Registered Trademarks

As at the Latest Practicable Date, our Group had the right to use the following trademarks:

	Trademark	Registrant	Place of registration	Class	Registration number	Commencement date	Expiry date
1.		Magic Holdings (Note 1)	PRC	3	3658165	21 March 2006	20 March 2016
2.		Magic Holdings (Note 1)	PRC	3	3674011	21 November 2005	20 November 2015
3.		Magic Holdings (Note 1)	PRC	3	3674012	7 November 2005	6 November 2015
4.		Magic Holdings (Note 1)	PRC	3	4018004	21 February 2007	20 February 2017
5.		Magic Holdings (Note 1)	PRC	35	4545596	7 October 2008	6 October 2018
6.		Magic Holdings (Note 1)	PRC	44	4545598	7 October 2008	6 October 2018
7.		Magic Holdings (Note 1)	PRC	30	4545595	28 October 2007	27 October 2017
8.		Magic Holdings (Note 1)	PRC	42	4545597	7 October 2008	6 October 2018
9.		Magic Holdings (Note 1)	PRC	3	5226594	7 July 2009	6 July 2019
10.		Magic Holdings (Note 1)	PRC	3	5639389	28 October 2009	27 October 2019

Trademark	Registrant	Place of registration	Class	Registration number	Commencement date	Expiry date
11. 美即 	Magic Holdings	Singapore	3	T0700870B	11 January 2007	11 January 2017
12. 美即 	Magic Holdings	Malaysia	3	07000624	22 October 2009	12 January 2017
13. 美即 	Magic Holdings	Taiwan	003	1303765	16 March 2008	15 March 2018
14. 美即 	Magic Holdings	Hong Kong	3	300782451	18 December 2006	17 December 2016
15. 美即 	Magic Holdings	Macau	3	N/025990	3 January 2007	7 January 2015
16. 미즉	Magic Holdings	Korea	1	719550	18 December 2006	2 August 2017
17. 	Magic Holdings	Korea	1	719551	18 December 2006	2 August 2017
18. 미오이씨	Magic Holdings	Korea	1	719552	18 December 2006	2 August 2017
19. 美即	Magic Holdings	Korea	1	719549	18 December 2006	2 August 2017
20. 花窝	Donglisheng	PRC	16	4706398	21 November 2008	20 November 2018
21. 花窝	Donglisheng	PRC	25	4706399	7 February 2009	6 February 2019
22. 	Donglisheng	PRC	16	4706400	21 November 2008	20 November 2018
23. 花窝	Donglisheng	PRC	26	4706401	7 February 2009	6 February 2019
24. 	Donglisheng	PRC	26	4706402	7 February 2009	6 February 2019
25. 花窝	Donglisheng	PRC	35	4706403	28 January 2009	27 January 2019
26. 花窝	Donglisheng	PRC	30	4706404	7 March 2008	6 March 2018

	Trademark	Registrant	Place of registration	Class	Registration number	Commencement date	Expiry date
27.		Donglisheng	PRC	32	4706405	7 March 2008	6 March 2018
28.		Donglisheng	PRC	21	4706406	28 June 2009	27 June 2019
29.	花窝	Donglisheng	PRC	3	4706407	21 November 2008	20 November 2018
30.	花窝	Donglisheng	PRC	21	4706408	21 November 2008	20 November 2018
31.	花窝	Donglisheng	PRC	20	4706409	21 November 2008	20 November 2018
32.	花窝	Donglisheng	PRC	28	4706410	7 February 2009	6 February 2019
33.		Donglisheng	PRC	3	4706411	28 June 2009	27 June 2019
34.		Donglisheng	PRC	18	4706412	21 February 2009	20 February 2019
35.		Donglisheng	PRC	20	4706413	21 November 2008	20 November 2018
36.		Donglisheng	PRC	35	4706414	28 September 2009	27 September 2019
37.	花窝	Donglisheng	PRC	18	4706415	21 February 2009	20 February 2019
38.	花窝	Donglisheng	PRC	32	4706416	7 March 2008	6 March 2018
39.	极上	Donglisheng	PRC	3	5816229	28 November 2009	27 November 2019
40.		Donglisheng (Note 2)	PRC	3	5123913	14 June 2009	13 June 2019

	Trademark	Registrant	Place of registration	Class	Registration number	Commencement date	Expiry date
41.	姿翠	MG Cosmetics	PRC	3	6197724	21 February 2010	20 February 2020
42.	水派水	MG Cosmetics	PRC	3	6197725	21 February 2010	20 February 2020


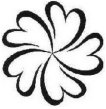
Notes:



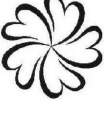









- (1) These trademarks were registered by Mr. She. On 15 March 2010, Mr. She entered into the Registered Trademarks Assignment Agreement to transfer such trademarks to Magic Holdings.
- (2) This trademark was registered by Mr. Zhao Lizhi. On 15 March 2010, Mr. Zhao Lizhi entered into the Donglisheng Registered Trademark Assignment Agreement to transfer such trademark to Donglisheng.














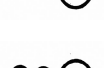
(b) Application for registration of trademarks






As at the Latest Practicable Date, applications for the registration of the following trademarks had been made by or assigned to our Group:



	Trademark	Applicant	Place of application	Class	Application number	Application date
1.	美 即	MG Cosmetics	PRC	1	6502015	10 January 2008
2.	美 即	MG Cosmetics	PRC	5	6502016	10 January 2008
3.	美 即	MG Cosmetics	PRC	6	6502017	10 January 2008
4.	美 即	MG Cosmetics	PRC	9	6502018	10 January 2008
5.	美 即	MG Cosmetics	PRC	10	6502019	10 January 2008
6.	美 即	MG Cosmetics	PRC	14	6502020	10 January 2008
7.	美 即	MG Cosmetics	PRC	15	6502021	10 January 2008
8.	美 即	MG Cosmetics	PRC	16	6502022	10 January 2008
9.	美 即	MG Cosmetics	PRC	18	6502023	10 January 2008
10.	美 即	MG Cosmetics	PRC	19	6502024	10 January 2008

	Trademark	Applicant	Place of application	Class	Application number	Application date
11.	美 即	MG Cosmetics	PRC	20	6502025	10 January 2008
12.	美 即	MG Cosmetics	PRC	21	6502026	10 January 2008
13.	美 即	MG Cosmetics	PRC	24	6502027	10 January 2008
14.	美 即	MG Cosmetics	PRC	25	6502028	10 January 2008
15.	美 即	MG Cosmetics	PRC	28	6502029	10 January 2008
16.	美 即	MG Cosmetics	PRC	29	6502030	10 January 2008
17.	美 即	MG Cosmetics	PRC	32	6502031	10 January 2008
18.	美 即	MG Cosmetics	PRC	33	6502032	10 January 2008
19.	美 即	MG Cosmetics	PRC	36	6502033	10 January 2008
20.	美 即	MG Cosmetics	PRC	38	6502034	10 January 2008
21.	美 即	MG Cosmetics	PRC	39	6502036	10 January 2008
22.	美 即	MG Cosmetics	PRC	41	6502037	10 January 2008
23.	美 即	MG Cosmetics	PRC	43	6502038	10 January 2008
24.	美 即	MG Cosmetics	PRC	45	6502039	10 January 2008
25.		MG Cosmetics	PRC	3	6502040	10 January 2008
26.		MG Cosmetics	PRC	5	6502041	10 January 2008

	Trademark	Applicant	Place of application	Class	Application number	Application date
27.		MG Cosmetics	PRC	30	6502042	10 January 2008
28.		MG Cosmetics	PRC	35	6502043	10 January 2008
29.		MG Cosmetics	PRC	44	6502044	10 January 2008
30.	初兰	MG Cosmetics	PRC	3	6819863	3 July 2008
31.	唧唧	MG Cosmetics	PRC	3	6806764	26 June 2008
32.		MG Cosmetics	PRC	3	7629720	18 August 2009
33.		MG Cosmetics	PRC	3	7631840	19 August 2009
34.		MG Cosmetics	PRC	3	7631877	19 August 2009
35.		MG Cosmetics	PRC	3	7631929	19 August 2009
36.		MG Cosmetics	PRC	3	7631992	19 August 2009
37.		MG Cosmetics	PRC	3	7631997	19 August 2009
38.	七子白	MG Cosmetics	PRC	3	7632011	19 August 2009
39.		MG Cosmetics	PRC	3	7635127	20 August 2009
40.		MG Cosmetics	PRC	3	7635135	20 August 2009
41.		MG Cosmetics	PRC	3	7635139	20 August 2009

	Trademark	Applicant	Place of application	Class	Application number	Application date
42.		MG Cosmetics	PRC	3	7635142	20 August 2009
43.		MG Cosmetics	PRC	3	7635150	20 August 2009
44.		MG Cosmetics	PRC	3	7637503	21 August 2009
45.		MG Cosmetics	PRC	3	7637517	21 August 2009
46.		MG Cosmetics	PRC	3	7637526	21 August 2009
47.		MG Bio-tech	PRC	3	6733874	20 May 2008
48.		MG Bio-tech	PRC	5	6733873	20 May 2008
49.		MG Bio-tech	PRC	21	6733872	20 May 2008
50.		MG Bio-tech	PRC	25	6733871	20 May 2008
51.		MG Bio-tech	PRC	26	6733870	20 May 2008
52.		MG Bio-tech	PRC	29	6733869	20 May 2008
53.		MG Bio-tech	PRC	30	6733868	20 May 2008
54.		MG Bio-tech	PRC	32	6733867	20 May 2008
55.		MG Bio-tech	PRC	33	6733866	20 May 2008





	Trademark	Applicant	Place of application	Class	Application number	Application date
56.		MG Bio-tech	PRC	41	6733865	20 May 2008
57.		MG Bio-tech	PRC	43	6733894	20 May 2008
58.	MADINA	Donglisheng	PRC	3	6001988	16 April 2007
59.	花研社	Donglisheng	PRC	3	6840174	15 July 2008
60.	KEEP UP	Donglisheng	PRC	3	6840172	15 July 2008
61.	极上护肤品	Donglisheng	PRC	3	6840171	15 July 2008
62.	极上护肤品	Donglisheng	PRC	29	6840169	15 July 2008
63.	极上护肤品	Donglisheng	PRC	30	6840168	15 July 2008
64.	极上护肤品	Donglisheng	PRC	32	6840167	15 July 2008
65.	极上配方	Donglisheng	PRC	30	6840163	15 July 2008
66.	极上配方	Donglisheng	PRC	32	6840162	15 July 2008
67.	UPS	Donglisheng	PRC	3	6840156	15 July 2008
68.	UPS	Donglisheng	PRC	5	6840155	15 July 2008
69.	UPS	Donglisheng	PRC	29	6840154	15 July 2008
70.	UPS	Donglisheng	PRC	30	6840173	15 July 2008
71.		Donglisheng	PRC	29	7134642	26 December 2008
72.		Donglisheng	PRC	5	7134643	26 December 2008
73.		Donglisheng	PRC	3	7134644	26 December 2008

	Trademark	Applicant	Place of application	Class	Application number	Application date
74.		Donglisheng	PRC	30	7134645	26 December 2008
75.		Donglisheng (Note)	PRC	3	5010001	18 November 2005

Note: This application for registration of trademark was made by Mr. Zhao Lizhi. On 15 March 2010, Mr. Zhao Lizhi entered into the Donglisheng Trademark Application Assignment Agreement to transfer such trademark to Donglisheng.

(c) Trademarks licensed to our Group

As at the Latest Practicable Date, the following trademarks had been licensed to our Group for use:

	Trademark	Place of application or registration	Status	Application or Registration number	Class
1.	 (Note)	PRC	Registered	3133353	3
2.	 (Note)	Hong Kong	Registered	199510666	3
3.	 (Note)	Taiwan	Registered	00918557	3
4.	 (Note)	PRC	Pending registration	7246194	3

Note: These trademarks had been licensed by Hanbul and It's Skin Co., Ltd. to MG JV BVI for use pursuant to the Hanbul Trademarks Licence Agreement and the It's Skin Trademark Licence Agreement respectively.

(d) Registration of outlook designs

As at the Latest Practicable Date, our Group had been assigned the following outlook designs at nil consideration:

No.	Title of outlook design	Registered owner	Place of registration	Registration number	Commencement Date	Expiry Date
1.	包裝盒(紫)	Magic Holdings (Note 1)	PRC	ZL 033581452	2 September 2003	1 September 2013
2.	包裝盒(黃)	Magic Holdings (Note 1)	PRC	ZL 033581487	2 September 2003	1 September 2013
3.	包裝盒(紅)	Magic Holdings (Note 1)	PRC	ZL 033581479	2 September 2003	1 September 2013
4.	包裝盒(綠)	Magic Holdings (Note 1)	PRC	ZL 033581495	2 September 2003	1 September 2013
5.	包裝袋 (燕麥蜜糖潤澤亮麗)	Magic Holdings (Note 1)	PRC	ZL 200630151336.4	30 April 2006	29 April 2016
6.	包裝袋 (活氧溫泉淨化保濕)	Magic Holdings (Note 1)	PRC	ZL 200630151337.9	30 April 2006	29 April 2016
7.	包裝袋(紅酒亮膚煥顏)	Magic Holdings (Note 1)	PRC	ZL 200530122381.2	13 September 2005	12 September 2015
8.	包裝袋(草莓乳酪嫩白)	Magic Holdings (Note 1)	PRC	ZL 200530122383.1	13 September 2005	12 September 2015
9.	包裝袋(海洋微藻抗皺)	Magic Holdings (Note 1)	PRC	ZL 200530122384.6	13 September 2005	12 September 2015
10.	包裝袋(左旋VC美白)	Magic Holdings (Note 1)	PRC	ZL 200530122382.7	13 September 2005	12 September 2015
11.	包裝袋 (豆質素控油清脂)	Magic Holdings (Note 1)	PRC	ZL 200530122385.0	13 September 2005	12 September 2015
12.	包裝袋(綠茶清毒祛痘)	Magic Holdings (Note 1)	PRC	ZL 200530122386.5	13 September 2005	12 September 2015
13.	包裝袋(森林清泉SPA)	Magic Holdings (Note 1)	PRC	ZL 200530122388.4	13 September 2005	12 September 2015

APPENDIX VI**STATUTORY AND GENERAL INFORMATION**

No.	Title of outlook design	Registered owner	Place of registration	Registration number	Commencement Date	Expiry Date
14.	包裝袋(冰凝曬後修復)	Magic Holdings (Note 1)	PRC	ZL 200530122389.9	13 September 2005	12 September 2015
15.	包裝袋(綠玉葡萄水凝)	Magic Holdings (Note 1)	PRC	ZL 200530122390.1	13 September 2005	12 September 2015
16.	包裝袋(海洋冰泉補水)	Magic Holdings (Note 1)	PRC	ZL 200530122391.6	13 September 2005	12 September 2015
17.	包裝袋(牛奶白滑潤顏)	Magic Holdings (Note 1)	PRC	ZL 200530122393.5	13 September 2005	12 September 2015
18.	包裝袋(羅勒控油清痘)	Magic Holdings (Note 1)	PRC	ZL 200530122394.X	13 September 2005	12 September 2015
19.	包裝袋(石榴平滑細膚)	Magic Holdings (Note 1)	PRC	ZL 200530122387.X	13 September 2005	12 September 2015
20.	包裝袋 (野玫瑰緊膚舒顏)	Magic Holdings (Note 1)	PRC	ZL 200530122392.0	13 September 2005	12 September 2015
21.	包裝袋 (洋甘菊舒緩抗敏)	Magic Holdings (Note 1)	PRC	ZL 200530122380.8	13 September 2005	12 September 2015
22.	包裝袋 (橄欖翠葉柔蜜潤養)	Magic Holdings (Note 1)	PRC	ZL 200630151335.X	30 April 2006	29 April 2016

Note:

- (1) These outlook designs were registered by Mr. She. On 15 March 2010, Mr. She entered into the Outlook Designs Assignment Agreement to transfer such outlook designs to Magic Holdings.

(e) Application for registration of outlook design

As at the Latest Practicable Date, applications for the registration of the following outlook designs had been made by or assigned to our Group:

No.	Title of outlook design	Applicant	Place of application	Application number	Application Date
1	包裝袋 (雙花臻白)	Magic Holdings (Note 1)	PRC	200930193295.9	26 June 2009
2	包裝袋 (五味清顏)	Magic Holdings (Note 1)	PRC	200930193293.x	26 June 2009
3	包裝袋 (七子白)	Magic Holdings (Note 1)	PRC	200930193291.0	26 June 2009
4	包裝袋 (六釀禦白)	Magic Holdings (Note 1)	PRC	200930193292.5	26 June 2009
5	包裝袋 (四物無痘)	Magic Holdings (Note 1)	PRC	200930193294.4	26 June 2009
6	包裝袋 (八珍水潤)	Magic Holdings (Note 1)	PRC	200930193290.6	26 June 2009
7	包裝袋 (十珍駐顏)	Magic Holdings (Note 1)	PRC	200930193289.3	26 June 2009

Note:

- (1) These applications for the registration of outlook designs were made by Mr. She. On 15 March 2010, Mr. She entered into the Application for Registration of Outlook Designs Assignment Agreement to transfer such applications to Magic Holdings.

(f) Domain names

As at the Latest Practicable Date, our Group had registered the following domain names:

No.	Domain name	Registrant	Registration date	Expiry date
1.	kr-magic.com	Guangdong Qunhe	26 October 2004	26 October 2011
2.	美即.com	Guangdong Qunhe (Note 1)	2 November 2006	2 November 2010
3.	美即.公司	Guangdong Qunhe (Note 1)	2 November 2006	2 November 2010
4.	mg-skincare.cc	Guangdong Qunhe (Note 1)	16 November 2006	16 November 2010
5.	mg-holdings.cc	Guangdong Qunhe (Note 1)	23 November 2006	23 November 2010
6.	miracle-genesis.com	Guangdong Qunhe (Note 1)	23 November 2006	23 November 2010

No.	Domain name	Registrant	Registration date	Expiry date
7.	magic-holdings.com	Guangdong Qunhe	23 November 2006	23 November 2011
8.	美即.中國	Guangdong Qunhe (<i>Note 1</i>)	19 November 2009	19 November 2011
9.	magic-holdings.com.cn	Guangdong Qunhe (<i>Note 1</i>)	4 January 2010	4 January 2011
10.	magic-holdings.cn	Guangdong Qunhe (<i>Note 1</i>)	4 January 2010	4 January 2011
11.	magic-holdings.hk	Guangdong Qunhe	4 January 2010	4 January 2011

Note:

(1) These domain names were applied by Mr. Gu Jing (古儋), an employee of Guangdong Qunhe, on behalf of Guangdong Qunhe.

FURTHER INFORMATION ABOUT DIRECTORS AND SHAREHOLDERS

12. Directors

(a) *Disclosure of interests of Directors*

- (i) Mr. Tang, Mr. She and Mr. Luo are interested in the Reorganisation.
- (ii) Save as disclosed in this prospectus, none of our Directors or their associates was engaged in any dealings with our Group during the two years preceding the date of this prospectus.

(b) *Particulars of Directors' service contracts and letters of appointment*

Certain executive Directors

Each of Mr. Tang, Mr. She and Mr. Luo, each being our executive Director, has entered into a service contract with our Company pursuant to which they agreed to act as executive Directors for a fixed term of three years with effect from 1 September 2010.

Each of the above executive Directors is entitled to a basic salary as set out below (subject to an annual increment after 30 June 2011 at the discretion of our Directors). In addition, each of them is also entitled to a discretionary management bonus provided that the aggregate amount of the bonuses payable to all the executive Directors for any financial year of our Company may not exceed 10% of the audited combined or consolidated audited net profit of our Group (after taxation and minority interests and payment of such bonuses but before extraordinary items) in respect of

that financial year of our Company. An executive Director may not vote on any resolution of our Directors regarding the amount of the management bonus payable to him. The current basic annual salaries of Mr. Tang, Mr. She and Mr. Luo are as follows:

Name	Annual salary (RMB)
Mr. Tang	1,720,000
Mr. She	1,360,000
Mr. Luo	1,080,000

Certain executive Directors and independent non-executive Directors

Each of Mr. Zhang Kun Mou and Mr. Chen Lei (each being our executive Director) and each of our independent non-executive Directors has been appointed for an initial term of two years commencing from 1 September 2010 renewable automatically for successive term of one year each commencing from the next day after the expiry of the then current term of appointment, unless terminated by not less than three months' notice in writing served by either our executive Director or our independent non-executive Director or our Company expiring at the end of the initial term or at any time thereafter. Each of Mr. Zhang Kun Mou, Mr. Chen Lei and each of our independent non-executive Directors is entitled to a director's fee of RMB100,000 per annum. Save for directors' fees disclosed above, none of Mr. Zhang Kun Mou, Mr. Chen Lei or our independent non-executive Directors is expected to receive any other remuneration for holding their office as an executive Director or an independent non-executive Director.

Save as disclosed aforesaid, none of our Directors has or is proposed to have a service contract with our Company or any of our subsidiaries other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

(c) Remuneration of Directors

- (i) The aggregate emoluments paid and benefits in kind granted by our Group to the Directors in respect of the financial year ended 30 June 2009 and the ten months ended 30 April 2010 were approximately HK\$1.2 million and HK\$8.2 million respectively, whereas the aggregate emoluments paid and benefits in kind granted by our Group to the Directors in respect for the year ended 30 June 2010 is estimated to be approximately HK\$11.6 million, including the one-off benefit under HK\$9.3 million and excluding any discretionary bonuses.
- (ii) Under the arrangements currently in force, the aggregate emoluments (excluding discretionary bonus) payable by our Group to and benefits in kind receivable by our Directors (including our independent non-executive Directors) for the year ending 30 June 2011 are expected to be approximately HK\$5.3 million.

- (iii) None of our Directors or any past directors of any member of our Group has been paid any sum of money for each of the three years ended 30 June 2009 and the ten months ended 30 April 2010 as (i) an inducement to join or upon joining our Company; or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.
- (iv) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the three years ended 30 June 2009 and the ten months ended 30 April 2010.

(d) *Interests and short positions of our Directors in the shares, underlying shares or debentures of our Company and our associated corporations following the Global Offering*

Immediately following completion of the Global Offering and the Capitalisation Issue and taking no account of any Shares which may be allotted and issued pursuant to the Share Option Scheme or the exercise of the Over-allotment Option, the interests or short positions of the Directors in the shares, underlying shares or debentures of our Company and our associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to notify our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, will be as follows:

Name of Director	Name of Group member/associated corporation	Capacity/nature of interest	Number and class of securities (Note 1)	Approximate percentage of shareholding
Mr. Tang	The Company	Interest of controlled corporations (Note 2)	74,885,286 Shares (L)	9.36%
Mr. She	The Company	Beneficial owner	97,329,896 Shares (L)	12.17%
Mr. Luo	The Company	Beneficial owner	29,943,626 Shares (L)	3.74%
Mr. Tang and Mr. She	The Company	Trustee (Note 3)	28,789,931 Shares (L)	3.60%

Notes:

- The letter "L" denotes the Directors' long position in the shares of our Company or the relevant associated corporation.*
- Among these Shares, 52,440,676 Shares were held through MG Company Limited, a company wholly-owned by Mr. Tang, and 22,444,610 Shares were held through Charm Magna Limited, a company wholly-owned by an Independent Third Party on trust in favour of Mr. Tang.*
- The Shares are held by Mr. Tang and Mr. She as Share Award Plan Trustee.*

13. Interest discloseable under the SFO and substantial shareholders

So far as our Directors are aware, immediately following the completion of the Global Offering and the Capitalisation Issue (but without taking into account of any Shares which may be taken up under the Global Offering and any Shares which may be allotted and issued upon the exercise of the Over-allotment Option), other than a Director or chief executive of our Company whose interests are disclosed under the sub-paragraph headed “Interests and short positions of our Directors in the shares, underlying shares or debentures of our Company and our associated corporations following the Global Offering” above, the following persons or entities will have an interest or short position in the Shares or underlying Shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and who will be expected, directly or indirectly, to be interested in 10% or more of the Shares:

Name of Shareholders	Capacity/nature of interest	Number and class of securities (Note 1)	Approximate percentage of shareholding
Queenherb	Beneficial owner	207,481,537 Shares (L)	26%
Hua Han	Interest in controlled corporation (Note 2)	207,481,537 Shares (L)	26%
Wu Xiao Qing	Interest of spouse (Note 3)	126,119,827 Shares (L)	15.76%
Ho Ching Han	Interest of spouse (Note 4)	103,675,217 Shares (L)	12.96%

Notes:

1. The letter “L” denotes the person’s or corporation’s long position in the Shares.
2. Queenherb is a direct wholly-owned subsidiary of Hua Han. Therefore Hua Han is deemed to be interested in the Shares held by Queenherb under the SFO.
3. Wu Xiao Qing is the spouse of Mr. She and therefore is deemed to be interested in the Shares in which Mr. She is interested under the SFO.
4. Ho Ching Han is the spouse of Mr. Tang and therefore is deemed to be interested in the Shares in which Mr. Tang is interested under the SFO.

14. Disclaimers

Save as disclosed in this prospectus:

- (a) and taking no account of any Shares which may be taken up or acquired under the Global Offering or upon the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme, the Directors are not aware of any person (not being a Director or chief executive of our Company) who will, immediately following the completion of the Global Offering and the Capitalisation Issue, have an interest or a short position in Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of us;
- (b) none of our Directors has any interest or short position in any of the shares, underlying shares or debentures of our Company or any associated corporations within the meaning of Part XV of the SFO, which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any of them is deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, in each case once the Shares are listed;
- (c) none of our Directors nor any of the parties listed in the paragraph 23 has been interested in the promotion of, or has any direct or indirect interest in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to our Company or any of our subsidiaries, or are proposed to be acquired or disposed of by or leased to our Company or any other member of us nor will any Director apply for the Offer Shares either in his/her own name or in the name of a nominee;
- (d) none of our Directors nor any of the parties listed in paragraph 23 below is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to business of us; and
- (e) save in connection with the Underwriting Agreement, none of the parties listed in paragraph 23 below:
 - (i) is interested legally or beneficially in any securities of any member of us; or
 - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of us.

OTHER INFORMATION

15. Share Option Scheme

(a) Summary of terms

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by a resolution in writing passed by all the then Shareholders on 6 September 2010:

(i) Purposes of the scheme

The purpose of the Share Option Scheme is to enable us to grant options to selected participants as incentives or rewards for their contribution to us. Our Directors consider the Share Option Scheme, with its broadened basis of participation, will enable us to reward our employees, our Directors and other selected participants for their contributions to us. Given that our Directors are entitled to determine any performance targets to be achieved as well as the minimum period that an option must be held before an option can be exercised on a case by case basis, and that the exercise price of an option cannot in any event fall below the price stipulated in the Listing Rules or such higher price as may be fixed by our Directors, it is expected that grantees of an option will make an effort to contribute to our development so as to bring about an increased market price of the Shares in order to capitalise on the benefits of the options granted.

(ii) Who may join

Our Directors (which expression shall, for the purpose of this paragraph 15, include a duly authorised committee thereof) may, at its absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for Shares:

- (aa) any employee (whether full-time or part-time, including any executive director but excluding any non-executive director) of our Company, any of our subsidiaries or any entity ("**Invested Entity**") in which our Group holds an equity interest;
- (bb) any non-executive directors (including independent non-executive directors) of our Company, any of our subsidiaries or any Invested Entity;
- (cc) any supplier of goods or services to any member of our Group or any Invested Entity;
- (dd) any customer of our Group or any Invested Entity;
- (ee) any person or entity that provides research, development or other technological support to our Group or any member of any Invested Entity;
- (ff) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity;

- (gg) any adviser (professional or otherwise) or consultant to any area of business or business development of our Group or any Invested Entity; and
- (hh) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement and growth of our Group,

and, for the purposes of the Share Option Scheme, the options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants. For the avoidance of doubt, the grant of any options by our Company for the subscription of Shares or other securities of our Group to any person who fall within any of the above classes of participants shall not, by itself, unless our Directors otherwise determined, be construed as a grant of option under the Share Option Scheme.

The eligibility of any of the above class of participants to the grant of any option shall be determined by our Directors from time to time on the basis of our Directors' option as to his contribution to the development and growth of our Group.

(iii) Maximum number of Shares

- (aa) The maximum number of Shares which may be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Group must not in aggregate exceed 30% of the issued share capital of our Company from time to time.
- (bb) The total number of Shares which may be allotted and issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of our Group) to be granted under the Share Option Scheme and any other share option scheme of our Group must not in aggregate exceed 10% of the Shares in issue on the day on which trading of the Shares commence on the Main Board ("**General Scheme Limit**").
- (cc) Subject to (aa) above but without prejudice to (dd) below, our Company may seek approval of the Shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share options scheme of our Group must not exceed 10% of the Shares in issue as at the date of approval of the limit and for the purpose of calculating the limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of our Group) previously granted under the Share Option Scheme and any other share option scheme of our Group will not be counted. The circular sent by our Company to the Shareholders shall contain, among other information, the information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

(dd) Subject to (aa) above and without prejudice to (cc) above, our Company may seek separate Shareholders' approval in general meeting to grant options beyond the General Scheme Limit or, if applicable, the extended limit referred to in (cc) above to participants specifically identified by our Company before such approval is sought. In such event, our Company must send a circular to the Shareholders containing a general description of the specified participants, the number and terms of options to be granted, the purpose of granting options to the specified participants with an explanation as to how the terms of the options serve such purpose and such other information as required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer as required under Rule 17.02(4) of the Listing Rules.

(iv) Maximum entitlement of each participant

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of our Group (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of our Company for the time being ("**Individual Limit**"). Any further grant of options under the Share Option Scheme and any other share option scheme of our Group which is in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to the issue of a circular to the Shareholders and the Shareholders' approval in general meeting with such participant and his associates abstaining from voting. The number and terms (including the exercise price) of options to be granted to such participant must be fixed before Shareholders' approval and the date of board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under note (1) to Rule 17.03(9) of the Listing Rules.

(v) Grant of options to connected persons

(aa) Without prejudice to (bb) below, any grant of options under the Share Option Scheme to a director, chief executive or substantial shareholder of our Company or any of their respective associates (as defined under the Listing Rules) must be approved by the independent non-executive Directors of our Company (excluding any independent non-executive Director who is the grantee of the options).

(bb) Without prejudice to (aa) above, where any grant of options to a substantial shareholder of our Company or an independent non-executive director of our Company or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% of the Shares in issue; and
- (ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million;

such further grant of options must be approved by the Shareholders in general meeting. For the purpose of seeking the approval of the Shareholders, our Company must send a circular to the Shareholders containing the information required under the Listing Rules. All connected persons of our Company must abstain from voting at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such options must be taken on a poll. Any change in the terms of options granted to any grantee who is a substantial shareholder of our Company or an independent non-executive director of our Company or any of their respective associates must be approved by the Shareholders in general meeting.

(vi) Time of acceptance and exercise of option

An option may be accepted by a participant within 21 days from the date on which an offer for the grant of the option is made.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. Unless otherwise determined by the Directors and stated in the offer of the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

(vii) Performance targets

Unless otherwise determined by our Directors and stated in the offer of the grant of options to a grantee, a grantee is not required to achieve any performance targets before any options granted under the Share Option Scheme can be exercised.

(viii) Subscription price for Shares and consideration for the option

The subscription price for Shares under the Share Option Scheme will be a price determined by our Directors, but shall not be less than the higher of (i) the closing price of Shares as stated in the Stock Exchange's daily quotations sheet on the date on which an offer for the grant of an option is made, which must be a business day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date on which an offer for the grant of an option is made; and (iii) the nominal value of the Shares.

A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

(ix) Ranking of Shares

(aa) Shares to be allotted upon the exercise of an option will be subject to all the provisions of the Articles and will rank *pari passu* in all respects with the existing

fully paid Shares in issue on the date on which the option is duly exercised or, if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members (“**Exercise Date**”) and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise Date. A Share allotted upon the exercise of an option shall not carry voting rights until the completion of the registration of the grantee on the register of members of our Company as the holder thereof.

- (bb) Unless the context otherwise requires, references to “Shares” in this paragraph include references to shares in the ordinary equity share capital of our Company of such nominal amount as shall result from a subdivision, consolidation, re-classification or reduction of the share capital of our Company from time to time.

(x) Restrictions on the time of grant of options

For so long as the Shares are listed on the Stock Exchange, no offer for grant of options shall be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced in accordance with the requirements of the Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of (aa) the date of the meeting of our Directors for the approval of our Company’s results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and (bb) the last date on which our Company must publish its an announcement of its results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the announcement of the results, no option may be granted.

Our Directors may not grant any option to a participant who is a Director during the periods or times in which the Directors are prohibited from dealing the Shares pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

(xi) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

(xii) Rights on ceasing employment

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee for any reason other than death, ill-health or retirement in accordance with his contract of employment or for serious misconduct or other grounds referred to in sub-paragraph (xiv) below before exercising his option in full, the option (to the extent not

already exercised) will lapse on the date of cessation and will not be exercisable unless our Directors otherwise determine in which event the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as our Directors may determine following the date of such cessation or termination, which will be taken to be the last day on which the grantee was at work with our Group or the Invested Entity whether salary is paid in lieu of notice or not.

Eligible Employee means any employee (whether full time or part time employee, including any executive director but not any non-executive director) of our Company, any of our subsidiaries or any Invested Entity.

(xiii) Rights on death, ill-health or retirement

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of his death, ill-health or retirement, in accordance with his contract of employment, before exercising the option in full, his personal representative(s), or, as appropriate, the grantee may exercise the option (to the extent not already exercised) in whole or in part within a period of 12 months following the date of cessation which date shall be the last day on which the grantee was at work with our Group or the Invested Entity, and whether his salary is paid in lieu of notice or not or such longer period as our Directors may determine.

(xiv) Rights on dismissal

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason that he has been guilty of serious misconduct or has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of our Directors does not bring the grantee or any member of our Group or the Invested Entity into disrepute), his option will lapse automatically and will not in any event be exercisable on or after the date he ceases to be an Eligible Employee.

(xv) Rights on breach of contract

Our Directors may at their absolute discretion determine that (aa) (1) the grantee of any option (other than an Eligible Employee) or his associate has committed any breach of any contract entered into between the grantee or his associate on the one part and any member of our Group or any Invested Entity on the other part; or (2) that the grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; or (3) the grantee could no longer make any contribution to the growth and development of any member of our Group by reason of the cessation of its relations with our Group or by other reason whatsoever; and (bb) the option granted to the grantee under the Share Option scheme shall lapse, as a result of any event specified in sub-paragraph (1), (2) or (3) above, and his option will lapse automatically and will not in any event be exercisable on or after the date on which our Directors have so determined.

(xvi) Rights on a general offer, a compromise or arrangement

If a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of the Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, our Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, shareholders of our Company. If such offer becomes or is declared unconditional, or such scheme of arrangement is formally proposed to the Shareholders, the grantee shall be entitled to exercise his option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to our Company in accordance with the provisions of the Share Option Scheme at any time before the close of such offer (or any revised offer) or the record date for entitlements under such scheme of arrangement, as the case may be. Subject to the above, the option will lapse automatically (to the extent not exercised) on the date on which such offer (or, as the case may be, revised offer) closes or the relevant record date for entitlements under such scheme of arrangement, as the case may be.

(xvii) Rights on winding up

In the event of a resolution being proposed for the voluntary winding-up of our Company during the option period, the grantee may, subject to the provisions of all applicable laws, by notice in writing to our Company at any time not less than two business days before the date on which such resolution is to be considered and/or passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of the Share Option Scheme and our Company shall allot and issue to the grantee the Shares in respect of which such grantee has exercised his option not less than one business day before the date on which such resolution is to be considered and/or passed whereupon the grantee shall accordingly be entitled, in respect of the Shares allotted and issued to him in the aforesaid manner, to participate in the distribution of the assets of our Company available in liquidation *pari passu* with the holders of the Shares in issue on the day prior to the date of such resolution. Subject thereto, all options then outstanding shall lapse and determine on the commencement of the winding-up of our Company.

(xviii) Grantee being a company wholly owned by eligible participants

If the grantee is a company wholly owned by one or more eligible participants:

- (i) sub-paragraphs (xii), (xiii), (xiv) and (xv) shall apply to the grantee and to the options granted to such grantee, mutatis mutandis, as if such options had been granted to the relevant eligible participant, and such options shall accordingly lapse or fall to be exercisable after the event(s) referred to in sub-paragraphs (xii), (xiii), (xiv) and (xv) shall occur with respect to the relevant eligible participant; and
- (ii) the options granted to the grantee shall lapse and determine on the date the grantee ceases to be wholly owned by the relevant eligible participant provided that our Directors may in their absolute discretion decide that such options or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may impose.

(xix) Adjustments to the subscription price

In the event of any alteration in the capital structure of our Company as a result of events arising from a capitalisation issue, rights issue, subdivision or consolidation of Shares or reduction of capital of our Company whilst an option remains exercisable, our Company shall instruct its auditors or an independent financial adviser to certify in writing the adjustment, if any, that ought in their opinion fairly and reasonably to be made to the number or nominal amount of Shares, the subject matter of the Share Option Scheme and the option so far as unexercised and/or the option price of the option concerned, provided that (i) any adjustments shall give the grantee the same proportion of the issued share capital to which he was entitled prior to such adjustment; (ii) the issue of Shares or other securities of our Group as consideration in a transaction shall not be regarded as a circumstance requiring adjustment; and (iii) no alteration shall be made the effect of which would be to enable a Share to be issued at less than its nominal value. In addition, in respect of any such adjustments, other than any made on a capitalisation issue, such auditors or independent financial adviser must confirm to our Directors in writing that the adjustments satisfy the requirements of the relevant provisions of the Listing Rules.

(xx) Cancellation of options

Any option granted but not exercised may not be cancelled except with the consent of the relevant grantee and the approval of our Directors.

Where our Company cancels any option granted to a grantee but not exercised and issues new option(s) to the same grantee, the issue of such new option(s) may only be made with available unissued options (excluding the options so cancelled) within the General Scheme Limit or the new limits approved by the Shareholders pursuant sub-paragraphs (iii) (cc) and (dd) above.

(xxi) Termination of the Share Option Scheme

Our Company may by resolution in general meeting at any time terminate the Share Option Scheme and in such event no further options will be offered but in all other respects the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provisions of the Share Option Scheme and the options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(xxii) Rights are personal to the grantee

An option is personal to the grantee and shall not be transferable or assignable.

(xxiii) Lapse of option

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

- (aa) the expiry of the period referred to in paragraph (vi); and
- (bb) the expiry of any of the periods or dates referred to in paragraph (xii), (xiii), (xiv), (xv), (xvi), (xvii) and (xviii).

(xxiv) Others

- (aa) The Share Option Scheme is conditional upon the Listing Committee of the Stock Exchange granting the listing of and permission to deal in, such number of Shares representing the General Scheme Limit to be issued by our Company pursuant to the exercise of any options which may be granted under the Share Option Scheme, such number being not less than that of the General Scheme Limit.
- (bb) The terms and conditions of the Share Option Scheme relating to the matters set out in Rule 17.03 of the Listing Rules shall not be altered to the advantage of grantees of the options except with the approval of the shareholders in general meeting.
- (cc) Subject to (ee) below, any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted shall be approved by the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- (dd) The amended terms of the Share Option Scheme or the options shall comply with the relevant requirements of Chapter 17 of the Listing Rules.
- (ee) Any change to the authority of the Directors or the scheme administrators in relation to any alteration to the terms of the Share Option Scheme must be approved by the Shareholders in general meeting.

(b) Present status of the Share Option Scheme*(i) Approval of the Listing Committee required*

The Share Option Scheme is conditional on the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, such number of Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, such number being not less than that of the General Scheme Limit.

(ii) Application for approval

Application has been made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Shares to be issued within the General Scheme Limit pursuant to the exercise of any options which may be granted under the Share Option Scheme.

(iii) *Grant of option*

As at the date of this prospectus, no options have been granted or agreed to be granted under the Share Option Scheme.

(iv) *Value of options*

Our Directors consider it inappropriate to disclose the value of the options which may be granted under the Share Option scheme as if they had been granted as at the Latest Practicable Date. Our Directors consider that any such valuation will have to be made on the basis of certain option pricing models or other methodologies, which will depend on various assumptions including the exercise price, exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. Our Directors believe that any calculation of the value of options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to investors.

16. Share Award Plan

(a) *Summary of terms*

The following is a summary of the principal terms of the Share Award Plan adopted by the shareholders of Magic Holdings on 30 October 2009:

(i) *Purpose of the scheme*

The purpose of the Share Award Plan is to recognise and reward the contribution of certain eligible participants to the growth and development of our Group through an award of shares.

(ii) *Who may join*

The Share Award Plan shall be subject to the administration of the directors of Magic Holdings or, upon completion of the Reorganisation, the Directors. The directors of Magic Holdings or, upon completion of the Reorganisation, the Directors, may, at their absolute discretion, make an award to any person belonging to any of the following classes of participants ("**Selected Participants**"):

- (aa) any employee (whether full time or part time, including any director) of our Company, any of our subsidiaries or any Invested Entity;
- (bb) any person or entity that provides research, development or other technological support to any member of our Group or any Invested Entity;
- (cc) any shareholder of any member of our Group or Invested Entity or any holder of any securities issued by any member of our Group or Invested Entity;

- (dd) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of our Group or Invested Entity; and
- (ee) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or any other business arrangement to the development and growth of our Group.

The eligibility of any of the above class of participants to an award shall be determined by the directors of Magic Holdings (or upon completion of the Reorganisation, the Directors) from time to time on the basis of their opinion as to his contribution to the development and growth of our Group.

The Directors shall, subject to and in accordance with the provisions of the Share Award Plan, be entitled to make an award to any of the Selected Participants on such terms, including pricing and other terms, as the Directors shall determine.

(iii) Pool of awarded shares

The initial pool of shares in Magic Holdings under the Share Award Plan, representing 5% of the shares of Magic Holdings (as enlarged by the allotment and issue of such 5% shares of Magic Holdings under the Share Award Plan) ("**Initial Awarded Shares**"), was allotted and issued at nil-consideration to the Share Award Plan Trustee, among which shares representing approximately 0.2% of the shares of Magic Holdings (as enlarged by the allotment and issue of such 5% shares under the Share Award Plan) were transferred by the Share Award Plan Trustee to Mr. Ho immediately before the Company's acquisition of the entire issued share capital of Magic Holdings pursuant to the Reorganisation ("**Share Swap**") in accordance with the terms of the relevant award letter, whereas the remaining approximately 4.8% of the shares of Magic Holdings (as enlarged by the allotment and issue of such 5% shares under the Share Award Plan) were held by the Share Award Plan Trustee in accordance with the rules of the Share Award Plan, out of which shares representing approximately 2.66% of the shares of Magic Holdings (as enlarged by the allotment and issue of such 5% shares under the Share Award Plan) have been awarded to senior management and employees of our Group and will be transferred to them by the Share Award Trustee in accordance with the terms and conditions of such awards and the rules of the Share Award Plan. For further detail of the shares awarded under the Share Award Plan, please refer to the paragraph headed "Awards made under the Share Award Plan" below. Immediately following the Share Swap, the Capitalisation Issue and the Global Offering, the initial pool of shares under the Share Award Plan held by the Share Award Plan Trustee or vested in Mr. Ho will be 29,996,067 Shares (representing 3.75% of the issued share capital of the Company immediately after completion of the Global Offering (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option)).

(iv) Maximum number of shares to be subscribed and purchased

In any given financial year, The maximum number of shares in Magic Holdings (or, after completion of the Reorganisation, the Shares) to be allotted and issued to, subscribed for and/or purchased by the Share Award Plan Trustee for the purpose of the Share Award Plan shall not exceed 10% of the total number of issued shares of Magic Holdings (or, after completion of the Reorganisation, the Shares) as at the beginning of such financial year (from the Listing Date up to the financial year ending 30 June 2011, no further Shares will be allotted and issued to, subscribed for and/or purchased by the Share Award Plan Trustee for the purpose of the Share Award Plan). The allotment and issue of Shares to the Share Award Plan Trustee for the purpose of the Share Award Plan shall be made pursuant to the Issuing Mandate which will be subject to approval in general meeting(s) of the Company; or otherwise pursuant to a new issue of Shares in compliance with the requirements of the Listing Rules.

(v) Vesting of the awarded shares

The earliest date on which the Share Award Plan Trustee may vest the legal and beneficial ownership of the shares awarded in the relevant Selected Participant is the date immediately before the acquisition by our Company of Magic Holdings ("**Earliest Vesting Date**").

The maximum number of Initial Awarded Shares (excluding such Initial Awarded Shares awarded to Mr. Ho) which may be transferred to and vested in Selected Participants during such period after the Earliest Vesting Date is set out below:

Maximum number of Initial Awarded Shares to be vested in the Selected Participant upon and after the Earliest Vesting Date	Period
Up to 20% of the total number of Initial Awarded Shares	Period commencing from the Earliest Vesting Date and up to the last Business Day immediately preceding the first anniversary of the Earliest Vesting Date
Up to 40% of the total number of Initial Awarded Shares	Period commencing from the first Business Day immediately after the first anniversary of the Earliest Vesting Date and up to the last Business Day immediately preceding the second anniversary of the Earliest Vesting Date

Maximum number of Initial Awarded Shares to be vested in the Selected Participant upon and after the Earliest Vesting Date	Period
Up to 60% of the total number of Initial Awarded Shares	Period commencing from the first Business Day immediately after the second anniversary of the Earliest Vesting Date and up to the last Business Day immediately preceding the third anniversary of the Earliest Vesting Date
Up to 80% of the total number of Initial Awarded Shares	Period commencing from the first Business Day immediately after the third anniversary of the Earliest Vesting Date and up to the last Business Day immediately preceding the fourth anniversary of the Earliest Vesting Date
Up to 100% of the total number of Initial Awarded Shares	Period commencing from the first Business Day immediately after the fourth anniversary of the Earliest Vesting Date

Subject to the maximum number of Initial Awarded Shares to be vested in the Selected Participant upon and after the Earliest Vesting Date as set out above, the legal and beneficial ownership of the relevant awarded shares shall vest in the relevant Selected Participant within 10 Business Days after the latest of:

- (aa) the Earliest Vesting Date specified by the directors of Magic Holdings (or after completion of the Reorganisation, the Directors) on the notice of the award.
- (bb) if the awarded shares will be vested in the Selected Participant in different stages, the date on which the relevant portion(s) of the awarded shares are vested in the Selected Participant;
- (cc) where applicable, the date on which the condition(s) or performance target(s) (if any) to be attained by such Selected Participant as specified in the related notice of award have been attained and notified to the Share Award Plan Trustee by the directors of Magic Holdings (or after completion of the Reorganisation, the Directors) in writing; and
- (dd) where applicable, the date on which the Share Award Plan Trustee has completed the subscription for and/or purchase of shares in Magic Holdings or the Shares for the purpose of making the relevant award.

(vi) *Period of the Share Award Plan*

The Share Award Plan will remain in force for a period of 10 years commencing on the date on which the Share Award Plan was adopted.

(vii) *Termination of the Share Award Plan*

The directors of Magic Holdings (or after completion of the Reorganisation, the Directors) may by resolution at any time terminate the operation of the Share Award Plan and in such event no further awards shall be made provided that such termination shall not affect any subsisting rights of any Selected Participant in respect of any award made to him prior to such termination.

(b) Awards made under the Share Award Plan

On 30 October 2009, award letters were sent by Magic Holdings to each of the Management Shareholders and 69 other employees of the Group pursuant to which awards of an aggregate of 1,144 shares of Magic Holdings were made to them, among which, 198, 153, 61 and 46 shares of Magic Holdings were awarded to Mr. Tang, Mr. She, Mr. Luo and Mr. Ho respectively; 45, 22, 36, 22, 32, 28, 32 and 22 shares of Magic Holdings were awarded to Mr. Feng Hong, Mr. Liu Liang Zhe, Ms. Wen Yan Juan, Mr. Piao Ying Zhe, Mr. Zhao Xin Fa, Mr. Zeng Hui, Ms. Lu Min and Mr. Yu Bin respectively who were disclosed as “Senior management” in the section headed “Directors and Senior Management” in this prospectus. The remaining 447 shares of Magic Holdings were awarded to 61 employees of the Group.

For reasons disclosed in the paragraph headed “Past Non-compliance with the Listing Rules” in the section headed “Relationship with Hua Han” of this prospectus, each of Mr. Tang, Mr. She, Mr. Luo, Ms. Wen Yan Juan and three other employees of the Group, who are connected persons of Hua Han, entered into an agreement with Magic Holdings on 19 August 2010 whereby each of them would not accept shares of Magic Holdings proposed to be granted to them under the award letters. An aggregate of 490 shares of Magic Holdings that have not been accepted will, upon allotment and issue of the said shares to the Share Award Plan Trustee, be held by it for and in favour of the eligible participants under the Share Award Plan.

Pursuant to the provisions of the Share Award Plan and the relevant conditions of the above awards, the Share Award Plan Trustee has vested the 46 shares of Magic Holdings so awarded to Mr. Ho on 5 September 2010, whereas the 608 shares of Magic Holdings awarded to the employees of our Group and which were accepted by them will be transferred to them by the Share Award Plan Trustee in accordance with the terms and conditions of such awards and the provisions of the Share Award Plan, that is, the share awards will be vested in the employees of our Group subject to the Earliest Vesting Date in the following manner:

Vesting period of awarded shares/Shares to be vested in senior management and other employees of the Group

Maximum number of award shares/ Shares to be vested upon and after the Earliest Vesting Date	Period
20% of the total number of awarded shares	Period commencing from the first business day immediately after 30 June 2011 (but excluding 30 June 2011), and where the Listing has not taken place on or before 30 June 2010, the vesting period shall be postponed to the first business day immediately after 30 June 2012 (but excluding 30 June 2012)
40% of the total number of awarded shares	Period commencing from the first business day immediately after 30 June 2012 (but excluding 30 June 2012), and where the Listing has not taken place on or before 30 June 2010, the vesting period shall be postponed to the first business day immediately after 30 June 2013 (but excluding 30 June 2013)
60% of the total number of awarded shares	Period commencing from the first business day immediately after 30 June 2013 (but excluding 30 June 2013), and where the Listing has not taken place on or before 30 June 2010, the vesting period shall be postponed to the first business day immediately after 30 June 2014 (but excluding 30 June 2014)
80% of the total number of awarded shares	Period commencing from the first business day immediately after 30 June 2014 (but excluding 30 June 2014), and where the Listing has not taken place on or before 30 June 2010, the vesting period shall be postponed to the first business day immediately after 30 June 2015 (but excluding 30 June 2015)
100% of the total number of awarded shares	Period commencing from the first business day immediately after 30 June 2015 (but excluding 30 June 2015), and where the Listing has not taken place on or before 30 June 2010, the vesting period shall be postponed to the first business day immediately after 30 June 2016 (but excluding 30 June 2016)

The following is a table showing the respective number of the Shares (after the acquisition by the Company of the entire issued share capital of Magic Holdings (“**Share Swap**”)) (a) vested or to be vested in (i) Mr. Ho, one of the Management Shareholders; (ii) each of the senior management; and (iii) other employees of the Group upon Listing and their respective vesting period; and (b) held by the Share Award Plan Trustee in accordance with the provisions of the Share Award Plan:

Name of holder of shares/Shares	No. of shares of Magic Holdings held before the Share Swap	No. of Shares held when all the Shares awarded are fully vested	Percentage in shareholding of the Company upon Listing (Note 1)	Vesting period
Management Shareholder				
Mr. Ho	46	1,206,136	0.15%	Vested on 5 September 2010, being the day immediately before the Share Swap
Senior Management				
Mr. Feng Hong	45	1,179,915	0.15%	Note 2
Mr. Liu Liang Zhe	22	576,847	0.07%	Note 2
Mr. Piao Ying Zhe	22	576,847	0.07%	Note 2
Mr. Zhao Xin Fa	32	839,051	0.10%	Note 2
Mr. Zeng Hui	28	734,169	0.09%	Note 2
Ms. Lu Min	32	839,051	0.10%	Note 2
Mr. Yu Bin	22	576,847	0.07%	Note 2
Other employees				
Other employees	405	10,619,237	1.33%	Note 2
Share Award Plan Trustee (holding shares/Shares pursuant to the rules of the Share Award Plan)				
Share Award Plan Trustee	490	12,847,966	1.61%	N/A
Total	<u>1,144</u>	<u>29,996,067</u>	<u>3.75%</u>	<u>N/A</u>

Notes:

- The percentages are arrived at without taking into account any Shares which may be issued and allotted pursuant to the exercise of the Over-allotment Option and on the assumption that all the Shares are vested.
- For the vesting period of awarded shares/Shares to senior management and other employees of the Group, please refer to the table headed “Vesting period of awarded shares/ Shares to be vested in senior management and other employees of the Group” in the above paragraph.

Under the Share Award Plan, the above employees of our Group shall not have any right to receive any shares awarded to them under the Share Award Plan and all other interest attributable thereto unless and until the Share Award Plan Trustee has transferred and vested the legal and beneficial ownership of such awarded shares to and in them.

17. Estate duty, tax and other indemnity

Hua Han (the “**Indemnifier**”) has entered into a deed of indemnity with and in favour of our Company (for itself and as trustee for each of our present subsidiaries) (being the material contract (d) referred to in paragraph 9 above) to provide indemnities in respect of, among other matters:

- (a) any liability for Hong Kong estate duty which might be incurred by any member of our Group by reason of any transfer of property (within the meaning of sections 35 and 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or the equivalent thereof under the laws of any jurisdiction outside Hong Kong) to any member of our Group on or before the Effective Date (as defined below); and
- (b) tax liabilities (including all penalties, costs, charges, expenses and interests incidental or relating to taxation) which might be payable by any member of our Group in respect of any income, profits or gains, earned, accrued or received on or before the Effective Date or any event or transaction on or before the Effective Date, whether alone or in conjunction with any circumstances whenever occurring and whether or not such tax liabilities are chargeable against or attributable to any other person, firm or company.

For the purpose of the deed of indemnity, “Effective Date” means the date on which the conditions stated in the paragraph headed “Conditions of the Hong Kong Public Offering and the Preferential Offering” under the section headed “Structure of the Global Offering” in this prospectus are fulfilled or waived by the relevant party.

The Indemnifier is under no liability under the deed of indemnity in respect of any taxation:

- (a) to the extent that provision has been made for such taxation in the audited accounts of any member of our Group for any accounting period up to 30 April 2010; or
- (b) to the extent that such taxation or liability for such taxation falling on any of the members of our Group in respect of any accounting period commencing on 1 May 2010 and ending on the Listing Date, where such taxation or liability would not have arisen but for some act or omission of, or transaction voluntarily effected by, any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Indemnifier, other than any such act, omission or transaction:
 - (i) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after 30 April 2010; or
 - (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before 30 April 2010 or pursuant to any statement of intention made in this prospectus; or

- (c) to the extent that such taxation liabilities or claims arising or incurring as a result of the imposition of taxation as a consequence of any retrospective changes in the law, rules and regulations or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or the taxation authority of the PRC, or any other relevant authority (whether in Hong Kong or the PRC or any other parts of the world) coming into force after the date of the deed of indemnity or to the extent such claims arise or is increased by an increase in rates of taxation after the date of the deed of indemnity with retrospective effect; or
- (d) to the extent that any provisions or reserves made for taxation in the audited accounts of any members of our Group up to 30 April 2010 and which was established to be an over-provision or an excessive reserve, in which case the Indemnifier's liability (if any) in respect of such taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied referred to in this paragraph to reduce the Indemnifier's liability in respect of taxation shall not be available in respect of any such liability arising thereafter.

18. Litigation

No member of our Group is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against our Company, that would have a material adverse effect on our results of operations or financial condition of our Company.

19. Preliminary expenses

The preliminary expenses of our Company are estimated to be approximately US\$4,150 (equivalent to approximately HK\$23,400) and are payable by our Company.

20. Promoter

Our Company does not have any promoter.

21. Agency fees or commissions received

The Hong Kong Underwriters shall receive a commission of 3.25% of the aggregate Offer Price of our Hong Kong Offer Shares underwritten by the Hong Kong Underwriters and the International Underwriter shall receive an underwriting commission of 3.25% of the aggregate Offer Price of our International Offer Shares underwritten by the International Underwriter, out of which they shall pay any sub-underwriting commissions.

The underwriting commission, financial advisory and documentation fees, listing fees, the Stock Exchange trading fees, the SFC transaction levy, legal and other professional fees together with printing and other expenses relating to the Global Offering, assuming an Offer Price of HK\$2.85 (being the mid-point of the Offer Price range between HK\$2.40 per Offer Share and HK\$3.30 per Offer Share), are estimated to amount to approximately HK\$50.0 million in total (assuming that the Over-allotment Option is not being exercised).

22. Sponsor

The Sole Sponsor has made an application on behalf of our Company to the Listing Committee of the Stock Exchange for the listing of, and for the permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and any Shares which may be issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme, being 10% of the Shares in issue on the Listing Date, on the Stock Exchange. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

23. Qualifications of experts

The following are the qualifications of the experts who have given opinions or advice which are contained in this prospectus:

Name	Qualification
BOCI Asia Limited	Licensed corporation to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO
Ernst & Young	Certified Public Accountants
Conyers Dill & Pearman	Cayman Islands barristers and attorneys
GFE Law Office	Qualified PRC lawyers
DTZ Debenham Tie Leung Limited	Professional property valuer
Jones Lang LaSalle Sallmanns Limited	Professional valuer
Asset Appraisal Limited	Professional valuer

24. Consents of experts

Each of BOCI Asia Limited, Ernst & Young, Conyers Dill & Pearman, GFE Law Office, DTZ Debenham Tie Leung Limited, Jones Lang LaSalle Sallmanns Limited and Asset Appraisal Limited has given and has not withdrawn their respective written consent to the issue of this prospectus with the inclusion of their report and/or letter and/or summary of valuations and/or legal opinion (as the case may be) and the references to their names or summary of opinions included herein in the form and context in which they respectively appear. As of the Latest Practicable Date, save in connection with the Underwriting Agreement, none of the experts named above has any shareholding interests in any member of our Group or the right (whether legally enforceable or not) to subscribe for securities in any member of our Group.

25. Binding effect

This prospectus shall have the effect, if an application is made in pursuance of it, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

26. Taxation of holders of Shares

Dealings in Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty. Intending holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares. It is emphasised that none of our Company, our Directors or the other parties involved in the Global Offering can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares.

Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

The sale, purchase and transfer of Shares is subject to Hong Kong stamp duty, the current rate of which is 0.2% of the consideration of or, if higher, the value of the Shares being sold or transferred.

Under present Cayman Islands law, transfers and other dispositions of Shares are exempt from Cayman Islands stamp duty.

27. Miscellaneous

- (a) Save as disclosed in this prospectus:
 - (i) within two years preceding the date of this prospectus:
 - (aa) no share or loan capital of our Company or of any of our subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (bb) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries;
 - (cc) no commission has been paid or is payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any shares in our Company or any of our subsidiaries;
 - (ii) no share or loan capital of our Company or any of our subsidiaries is under any option or has agreed conditionally or unconditionally to be put under option;

- (b) our Directors confirm that there has been no material adverse changes in the financial or trading position or prospects of our Group since 30 April 2010 (being the date to which the latest audited combined financial statements of our Group were made up); and

- (c) our Directors confirm that there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus.

28. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided under section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses for Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

A. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

- (a) copies of the **WHITE, YELLOW, BLUE** and **GREEN** Application Forms;
- (b) the written consents referred to in the sub-paragraph headed “Consents of experts” in the paragraph headed “Other information” in Appendix VI to this prospectus; and
- (c) copies of the material contracts referred to in the sub-paragraph headed “Summary of material contracts” in the paragraph headed “Further information about the business of our Company” in Appendix VI to this prospectus.

B. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Chiu & Partners at 40/F., Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the memorandum of association of the Company and the Articles;
- (b) the accountants’ report prepared by Ernst & Young, the text of which is set out in Appendix I to this prospectus;
- (c) the audited financial statements of companies comprising our Group for each of the three financial years ended 30 June 2009 and the ten months ended 30 April 2010 (or the period since their respective dates of incorporation of the relevant member of our Group where it is shorter), if any;
- (d) the letter prepared by Ernst & Young on unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- (e) the letters relating to the profit estimate from Ernst & Young and BOCI Asia Limited, the text of which are set out in Appendix III to this prospectus;
- (f) the valuation report (including a letter, a summary of valuation and the valuation certificate) prepared by DTZ Debenham Tie Leung Limited relating to the property interests of our Company, the texts of which are set out in Appendix IV to this prospectus;
- (g) the Companies Law;
- (h) the letter of advice prepared by Conyers Dill & Pearman summarising certain aspects of Cayman Islands company law as referred to in Appendix V to this prospectus;

- (i) the legal opinions prepared by the PRC legal adviser in respect of certain aspects of our Group and the property interests of our Group in the PRC;
- (j) the material contracts referred to in the sub-paragraph headed “Summary of material contracts” under the paragraph headed “Further information about the business of our Company” in Appendix VI to this prospectus;
- (k) the service contracts referred to in the sub-paragraph headed “Particulars of Directors’ service contracts and letters of appointment” under the paragraph headed “Further information about Directors and Shareholders ” in Appendix VI to this prospectus;
- (l) the rules of the Share Option Scheme; and
- (m) the written consents referred to in the sub-paragraph headed “Consents of experts” under the paragraph headed “Other information” in Appendix VI to this prospectus.

