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

Annual Report 2010/2011

美即 mG

绿玉葡萄水凝
森林清泉补水
海洋冰泉补水
活氧温泉保湿
左旋VC嫩白
草莓乳酪嫩白
红酒亮肤焕颜
牛奶白滑润颜
玫瑰亮白滋润
燕麦蜜糖亮颜
绿茶清盈祛痘
洋甘菊舒缓调理
夏日冰凝舒缓
石榴平滑细肤
野玫瑰紧肤舒颜
流金丝语
四物
五味
六酿
七子白
八珍
十珍

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. Tang Siu Kun Stephen *(Chairman)*
Mr. She Yu Yuan
Mr. Luo Yao Wen
Mr. Zhang Kun Mou
Mr. Chen Lei

Non-executive Director
Mr. Sun Yan

Independent Non-executive Directors
Mr. Yan Kam Tong
Professor Dong Yin Mao
Professor Yang Rude

AUDIT COMMITTEE

Mr. Yan Kam Tong
(Chairman of audit committee)
Professor Dong Yin Mao
Professor Yang Rude

REMUNERATION COMMITTEE

Professor Dong Yin Mao
(Chairman of remuneration committee)
Mr. Yan Kam Tong
Professor Yang Rude
Mr. Tang Siu Kun Stephen
Mr. She Yu Yuan

COMPANY SECRETARY

Mr. Cheng Wing Hong

AUTHORISED REPRESENTATIVES

Mr. Tang Siu Kun Stephen
Mr. Cheng Wing Hong
Mr. Yan Kam Tong
(alternate to Mr. Tang Siu Kun Stephen)

REGISTERED OFFICE

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HEADQUARTERS IN THE PRC

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PRC

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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255-257 Gloucester Road,
Causeway Bay, Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Butterfield House
68 Fort Street, P.O. Box 609
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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

CORPORATE INFORMATION

AUDITORS

Ernst & Young
Certified Public Accountants
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LEGAL ADVISER AS TO HONG KONG LAWS

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40th Floor, Jardine House
1 Connaught Place, Central
Hong Kong

LEGAL ADVISER AS TO PRC LAWS

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COMPLIANCE ADVISER

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16-18 Queen's Road Central
Hong Kong

COMPANY'S WEBSITE

www.magicholdings.co

STOCK CODE

01633

PRINCIPAL BANKERS

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

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

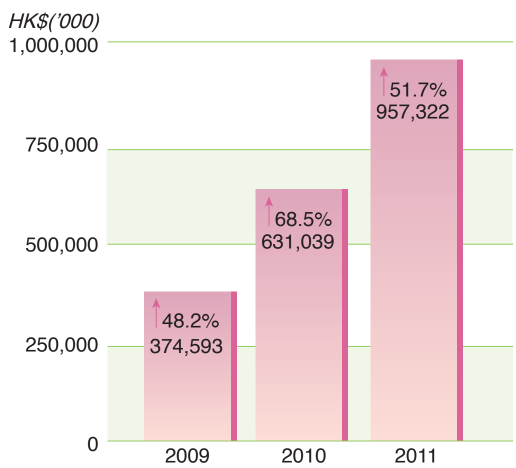
Oversea-Chinese Banking Corporation Limited
9/F Nine Queen's Road Central
Central, Hong Kong

FINANCIAL HIGHLIGHTS

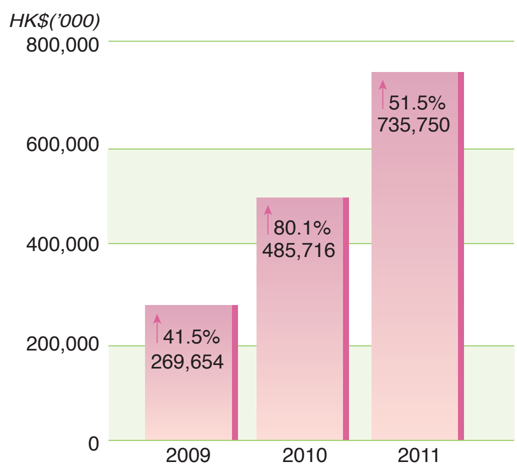
	2011 *HK$'000*	2010 *HK$'000*	Increase/ (Decrease) % Change
Sales revenue	**957,322**	631,039	↑ 51.7%
Gross profit	**735,750**	485,716	↑ 51.5%
Profit attributable to equity holders of the Company	**160,523**	118,583	↑ 35.4%
Basic earnings per share (HK cents)	**20.60**	19.60	↑ 5.1%
Gearing ratio (%) *(Note)*	**Nil**	Nil	0%
Net Cash	**975,404**	49,475	↑1,871.5%

Note: There was no outstanding bank borrowing as at 30 June 2011 and 30 June 2010.

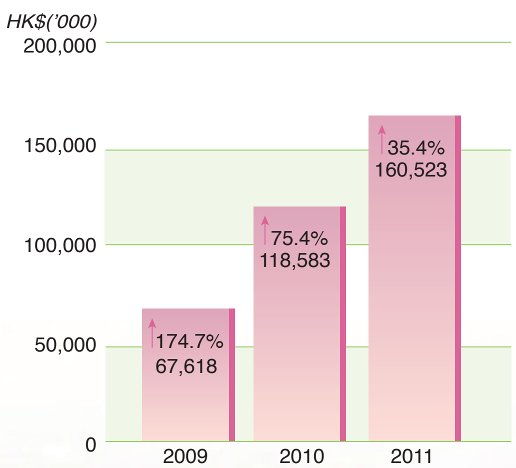
SALES REVENUE



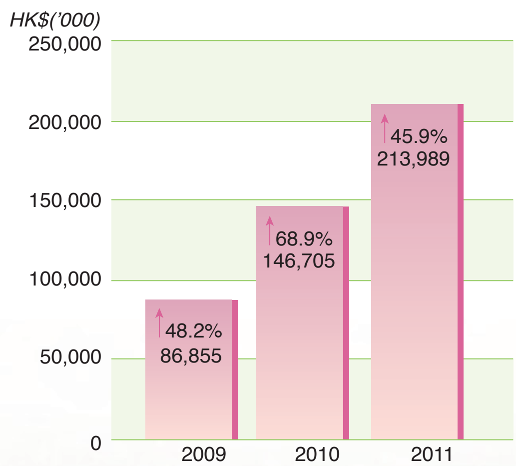
GROSS PROFIT



PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY



EBITDA



CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors ("**Board**") of Magic Holdings International Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**"), I am pleased to present the annual report of the Group for the year ended 30 June 2011.

The facial masks products industry achieved a growth rate of 29% from 2009 to 2010 and a compound annual growth rate ("**CAGR**") of 30.7% from 2007 to 2010 in the People's Republic of China ("**PRC**"). Under this significant growing trend, the past year was a year of significance for the development of the Group in achieving various important results.

During the year under review, the Group continued to achieve encouraging results. Sales revenue for the year ended 30 June 2011 amounted to approximately HK$957,322,000, representing a growth of 51.7% as compared with HK$631,039,000 in the preceding year. Gross profit margin stabled at 77% in financial year 2011 compared to 77% in financial year 2010. Profit attributable to equity holders of the Company increased to HK$160,523,000 in financial year 2011, representing an increase of 35.4% from HK$118,583,000 in financial year 2010.

Our encouraging results were due to the strong enhancement of the overall capabilities of the Group.

Firstly, our facial masks products of the MG Brand ("**MG Brand**") continuously maintain leading position in the facial masks industry in the PRC during the year under review. According to a report prepared by Kantar Worldpanel Limited, a subsidiary of CTR Market Research Company Limited ("**CTR Report**"), the market share of MG Brand increased from 15.1% in year 2009 to 16.8% in year 2010, while the market share in some key markets like Beijing had reached up to an approximately 26.4% in year 2010. Both of our MG Brand awareness and loyalty were also among the leading positions in the facial masks industry in PRC.

Secondly, our distribution network and sales channels continue to achieve significant growth in terms of number during the year under review. While continued to optimize our original first and second tier cities of personal care chain stores, hypermarkets and supermarkets channels, we adjusted and improved the business model of skincare specialty stores in third and fourth tier cities to further expand both the horizontal and vertical dimensions of the market coverage. As at 30 June 2011, we had 174 distributors (98 distributors as at 30 June 2010) and the number of terminal stores coverage were 6,264 (3,828 stores as at 30 June 2010) with an addition of 2,436 stores.

Thirdly, our eight new sheet mask products that were launched as our core products – the basic series during the year under review were White Tea Ultra Lightening Mask（白茶煥白亮采面膜）, Hyaluronic Acid Extremely Moisturizing Mask（透明質酸極潤保濕面膜）, Deep Sea Collagen Nourishing Mask（深海膠原滋養保濕面膜）, Vitamin E Whitening and Moisturizing Mask（維他命E淨白補濕面膜）and Peach Moisturizing and Whitening Mask（香蜜桃水凝嫩白面膜）, Soybean Milk Hydrating and Whitening Mask（豆乳水潤白皙面膜）, Roasted Brown Rice Whitening and Lightening Mask（玄米嫩白透亮面膜）and Aloe Water Bank Hydrating Mask（蘆薈水酷補水面膜）. Furthermore, one new product was added to our wash off mask series, namely Chamomiles Extra-protective Squeeze Mask（洋甘菊舒緩倍護面膜）. These new products have achieved sound consumers and sales responses with contribution of approximately 5.74% of total sales revenue for the period. The other medium and high end facial mask series launched in year 2010, Forever Silky（流金絲語）, Chinese Herbal Skincare（漢草理膚）and Spring（泉）, accounted for approximately 23.3% of total sales during the year under review.

CHAIRMAN'S STATEMENT

Fourthly, our marketing strategy, brand building and the change of advertising and promotion approach from "shoppers-oriented" to "consumers-oriented" is the key in achieving healthy, sustainable and rapid development of the Group in the long run. During the year under review, the Beijing market was the pilot region in placing comprehensive media coverage on television, such as TV commercial and principal title sponsor to certain TV program, subway, public buses, terminal stores, office buildings and fashionable magazines and had received positive feedback which further pushed the market share of our MG Brand to approximately 26.4% in Beijing's facial masks market according to the CTR Report. With the success of the pilot advertising and promotion in Beijing market, we gained the experience and had enhanced our confidence in facilitating the change of advertising and promotion approach in other regions in the PRC.

Finally, our multi-brand and multi-category development is a strategy about setting up new growing points other than the facial masks business. During the period under review, our wholly-owned skincare product brand "Keep Up" ("**Keep Up Brand**") were successfully launched to the market in June 2011 with sales contribution of HK$12,946,000. For the joint venture (its 51% interests is controlled by the Group) between the Group and Hanbul Cosmetics Co. Ltd. ("**Hanbul**"), a reputable cosmetic company in Korea, the management of the Group and Hanbul had reached common understanding on certain important issues such as the composition of the board of directors, the PRC development strategy for "It's Skin" and "ICS" ("**Individual Care System**") brands and the composition of the management team. Both parties had decided to unveil and open up the Eastern PRC market as a pilot region to explore the market of skincare products other than facial masks.

Looking forward, the Group will continue to be committed to expanding and strengthening its facial masks core business while exploring and developing the market of skincare products in PRC.

The Group will continue to leverage on our various leading strengths in facial masks industry to promote its favourable growth. While expanding the market size of facial masks industry. We will continue to enhance the MG Brand's leading position in the PRC facial masks industry in attaining the sustainable development of the Group's results.

The Group will continue to invest in additional resources in marketing and promotion of existing and new brands products (including above-the-line media and below-the-line terminal promotion), as well as increasing consumer awareness of the functionalities of facial masks in individuals' skincare routines aggressively in order to promote the PRC's facial mask industry as a whole.

CHAIRMAN'S STATEMENT

The Group will continue to improve our existing products development of new and innovative products to cater for consumer needs and market demand.

The Group will continue to strengthen the development of more new sales channel such as, convenience stores, maternity stores and internet stores, and expansion of existing terminal channels, especially the cosmetic and beauty product specialty stores in the third and fourth line markets.

The Group will continue to enhance its existing production facilities and production capabilities to cater for the rapid growth in the volume of MG Brand and keep good product quality requirement by, constructing an approximately 20,000 square metres new production facility in Guangzhou High-tech Industrial Development Zone.

Finally, the Group will continue to ensure future growth of the Group by adopting multi-category and multi-brand strategy other than the MG Brand.

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to our management, staff, customers, suppliers, business partners, professional parties and shareholders for their continuous commitment and support.

Tang Siu Kun Stephen
Chairman

Hong Kong
26 September 2011

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in research and development, manufacture, sales and marketing of facial mask products and other skincare products including MG Brand facial masks products ("**MG Brand**") and Keep Up Brand skincare products ("**Keep Up Brand**") in the PRC. During the year, the Group continued to achieve a positive return through its established distribution channels as well as its extensive marketing network.

FINANCIAL REVIEW

During the year ended 30 June 2011, the Group maintained a healthy, continuous and rapid growth. Sales revenue for the year ended 30 June 2011 amounted to approximately HK$957,322,000, representing a growth of approximately 51.7% as compared with approximately HK$631,039,000 in the preceding year. As a result of economies of scale brought by sales volume increase during the years and strict and effective implementation of budget control on production cost, the gross profit margin maintained at a relatively high level of approximately 77%, equaled to that of 2010. Profit attributable to equity holders increased to approximately HK$160,523,000 in financial year 2011, representing an increase of approximately 35.4% from approximately HK$118,583,000 in financial year 2010. MG Brand which contributed to approximately HK$943,132,000 in sales during the year, representing approximately 98.5% of total sales of the Group, still is the primary source of the Group's revenue. Apart from the facial mask products under MG Brand, approximately HK$14,190,000 of the Group's sales revenue during the year was attributable to the sales of other skincare products mainly contributed by the Keep Up Brand that was launched in June 2011.

The total selling, general and administrative expenses incurred by the Group during the year under review was approximately HK$546,128,000, representing in aggregate approximately 57.0% of the total sales revenue, of which, total selling and distribution expenses were approximately HK$492,516,000, representing approximately 51.4% of total sales revenue in aggregate. Administrative expenses were approximately HK$53,612,000, out of which approximately HK$13,316,000 was incurred as share award expenses.

While both sales revenue and profit continued to achieve rapid growth, the positioning and brand awareness of MG Brand also improved dramatically in the masks market in the PRC. According to a report prepared by Kantar Worldpanel Limited, a subsidiary of CTR Market Research Company Limited ("**CTR Report**"), our MG Brand ranked at the top position in the PRC facial masks industry for two consecutive years with the largest market share of 16.8% in year 2010 and 15.1% in year 2009. The brand awareness and brand loyalty of MG Brand are also in the leading positions among other facial mask brands.

BUSINESS REVIEW

In the financial year of 2011, the Group adhered to its established strategy of "actively and steadily promoting its multi-brand and multi-category development while further expanding and enhancing its facial mask core business". The facial mask core business continued to advance triumphantly with its multi-brand and multi-category development also gradually materialised. Not only had it ensured fast growing results during the current operating period but it also laid an important foundation for the continuous development in the future.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating results

Sales revenue for the year ended 30 June 2011 amounted to approximately HK$957,322,000, representing a growth of approximately 51.7% as compared with approximately HK$631,039,000 in the preceding year. The gross margin, for the financial year ended 2011, maintained at a relatively high level of approximately 77% which is the same as the financial year ended 2010. Profit attributable to equity holders of the Company increased to approximately HK$160,523,000 in financial year 2011, representing an increase of approximately 35.4% from approximately HK$118,583,000 in financial year 2010.

Brand positioning

According to the CTR Report, the market share of MG Brand in the PRC facial masks industry market in 2010 had reached 16.8%, ranked the top position again following its achievement in becoming the first for the first time in the PRC facial masks industry market in 2009, and further confirming its leading position in PRC. At the same time, the brand awareness and brand loyalty of MG Brand are also in the leading positions among other facial mask brands.

With the consumers' growing in-depth recognition for the facial masks skincare functionalities and their leisure beauty experience values, the facial masks are increasingly become an independent skincare product category, while the professional values and leisure beauty values of MG facial mask brand are gaining more and more recognised by the customers. We always believe, in a fast-growing industry, it is very important for MG Brand to become a market leader as it is an essential factor to take the MG Brand as the leading edge in facial mask products for future competition purposes. We will also continue to strive for enlarging the above advantage.

Brand promotion

In the past, MG Brand promotion was mainly focused on shopper-oriented and concentrated on below-the-line terminal stores promotion. In the financial year under review, we began to conduct significant strategy adjustment in MG Brand promotion, by putting emphasis on the customer-oriented strategy and concentrated on above-the-line advertisement and have achieved preliminary results.

Firstly, we took Beijing as the piloting market. Since May 2010, we launched a series of all-dimensional advertising campaigns in Beijing, including advertisements on television, metro, magazines, FocusMedia Terminal Hypermarkets, displays in office buildings and VisionChina's bus videos with significant advertising effects. According to the CTR Report, in 2010, the market share of MG Brand had reached 26.4% in Beijing's facial masks market with substantial improvement in brand awareness and reputation.

Since the beginning of 2011, we have expanded the brand promotion coverage through advertisements. While launching the advertisements through platforms like Hunan Satellite Television, Jiangsu Satellite Television and Qinghai Satellite Television, we also increased the advertisement launching efforts in FocusMedia Terminal Hypermarkets, displays in office buildings and VisionChina's bus videos in major cities throughout China.

MANAGEMENT DISCUSSION AND ANALYSIS

While increasing the launching of television advertisements, we also commenced the internet-based promotion activities, and had engaged OgilvyOne（奧美互動）, a renowned company in internet communication, as our important partner to promote our MG Brand on internet.

In 2011, we became the principal title sponsor of Qinghai Satellite Television's singing talent contest, Blossoming Flowers（花兒朵朵）, in China. The talent contest covered a very wide region, setting up singing contests in nine major cities, namely Changsha, Guangzhou, Nanjing, Shenyang, Chengdu, Kunming, Nanning, Xi'an and Xining, and six college singing contests in Wuhan, Guangzhou, Beijing, Hangzhou, Shanghai and Dalian. Such a wide coverage spectrum is in line with our focus in expanding in capital cities of these different regions. While leveraging on the singing contest of Magic Facial Masks Blossoming Flowers（花兒朵朵）in major regions, we also selected certain cities to launch additional regional media advertisements, and had carefully planned and implemented comprehensive road shows and terminal promotion activities under this theme.

The aforesaid brand promotion activities resulted in encouraging enhancement in respect of popularity and reputation of MG Brand, which are of great benefits in facilitating channel expansion, promoting terminal sales and improving brand loyalty of consumers. At the same time, we believe that such activities enabled MG Brand to move further ahead from a market share leading brand to a comprehensive leading brand, and had also played an important role in promoting the overall development of facial masks products.

Channel building up

At the beginning of the year under review, we formulated the following channel strategy for financial year 2010: firstly, we would continue to intensify our efforts in channel construction and shop locations selection; secondly, by leveraging on the intrinsic development of our covered channels, we would develop further and enrich the growth of the different channels of supermarkets and hypermarkets in the first and second tier cities as a supplement; thirdly, we would accelerate the development and deployment of beauty products specialty stores in the third and fourth tier cities. As the year had passed, this strategy was fully implemented and achieved satisfactory results. It enabled the number of distribution network and terminal stores to achieve significant growth continuously and had further expanded both the horizontal and vertical dimensions of our market coverage in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2011, we had 174 distributors (98 distributors as at 30 June 2010, which was mainly due to the increase in channel distributors of beauty specialty stores in the third and fourth tier cities). The number of terminal stores coverage was 6,264 (3,828 stores as at 30 June 2010), which was increased by 2,436 new stores for the year. Out of the total new stores, the increase was partly from the new shop openings by the established sales channels in first and second tier cities, and further developed certain well qualified medium and small-sized supermarkets and hypermarkets. The personal healthcare product chain stores during the year increased from 673 to 872 stores, and the new stores in supermarket and hypermarkets increased from 1,653 to 2,777 stores.

The number of our beauty products specialty stores in the third and fourth tier cities continued to sustain a rapid growing trend and increased from 1,502 stores to 2,615 stores.

The smooth development of channel construction is of significant implication. On one hand, the new stores contributed considerable sales revenue for the Group, which represented approximately 55.4% of the overall growth of sales revenue during the year. On the other hand, with the expansion of our distribution networks and terminal stores, we were able to access and thus cater for the needs of the wider population, enabling consumers to purchase Magic's products more conveniently, especially in the third and fourth tier cities. It is believed that these moves had facilitated in promoting the growth of facial mask products and improved the influence of MG Brand, and laid an important foundation for the on-going increase in sales in the future. Furthermore, we believe that the vigorous promotion of MG Brand as a leading brand has made a significant contribution to the overall growth of our facial mask products. The continuous expansion and rationalisation of MG Brand network will enable us to grasp the early opportunities in our future competition, and build up a barrier to entry for the competition.

While having rapid increase of our terminal stores, we also enhanced the operation and construction of our developed stores and achieved good results of general sales increase. Sales revenue of our original stores increased by 22.2% in its entirety over the last financial year, representing approximately 44.6% of our overall growth of sales revenue during the year.

While achieving sound results in both the development of new stores and operation of original stores, we further optimized the channel structure according to the pre-determined direction of our strategy. During the year, personal care chain stores achieved a steady growth in sales revenue, representing approximately 40% of our overall sales revenue. Sales revenue of various supermarkets and hypermarkets achieved obvious and rapid growth, representing approximately 42% of our overall sales revenue. Our beauty products specialty stores in the third and fourth tier cities recorded a most robust growth in sales revenue with the percentage in our overall sales revenue significantly improved to approximately 18%.

MANAGEMENT DISCUSSION AND ANALYSIS

New product development

The new product development strategy in the last financial year was to launch primarily the mid-high facial masks series, and we will focus on enriching and strengthening our pillar product series—basic series in the financial year under review. During the year, our MG Brand has launched eight types of new series of facial masks products, namely White Tea Ultra Lightening Mask (白茶煥白亮采面膜), Hyaluronic Acid Extremely Moisturizing Mask (透明質酸極潤保濕面膜), Deep Sea Collagen Nourishing Mask (深海膠原滋養保濕面膜), Vitamin E Whitening and Moisturizing Mask (維他命E淨白補濕面膜), Peach Moisturizing and Whitening Mask (香蜜桃水凝嫩白面膜), Soybean Milk Hydrating and Whitening Mask (豆乳水潤白皙面膜), Roasted Brown Rice Whitening and Lightening Mask (玄米嫩白透亮面膜) and Aloe Water Bank Hydrating mask (蘆薈水酷補水面膜). Furthermore, one new product was added to our wash off mask series, namely Chamomiles Extra-protective Squeeze Mask (洋甘菊舒緩倍護面膜). The above nine new type products have obtained stable customers and sales feedback, representing approximately 5.74% of total sale revenue for the year. While the above eight new products had enlarged the MG Brand portfolios, they had also provided more comprehensive choice to cater for different consumers' demand.

During the year under review, sales of other mid-high facial masks series like Forever Silky (流金絲語), Chinese Herbal Skincare (漢草理膚) and Spring (泉) represented 8.1%, 9.3% and 5.9% of total sales of the MG facial masks respectively, with 23.3% in aggregate. The sales contribution by the medium and high end products had increased especially for Forever Silky (流金絲語), which improved the overall gross margin and also widened our customer base to more premier customers with higher purchasing power in recognizing MG Brand as well as considerably improving the brand image of the MG Brand as an expert in facial masks industry.

MANAGEMENT DISCUSSION AND ANALYSIS

Multi-brand and multi-category development

While sustaining the rapid growth of our core businesses, the Group has also a good beginning in the strategic layout of the new growing points other than the facial mask product business.

The skincare industry achieved a compound annual growth rate ("**CAGR**") of approximately 18.8% from 2007 to 2010 in the PRC. Although it was less than the approximately 30.7% CAGR of the facial mask products in the same period, it was expected that this high growth rate will continue to grow at a CAGR of approximately 15% to the year 2015. With the continuous rapid development of the PRC economy, people's income and consumption standard will further improve. With people stressing more on personal appearance, we expect that the skincare products will maintain a faster development pace in the PRC in future. In addition, various existing skincare brands have not formed any monopolised position due to PRC's vast geographical locations, sophisticated municipal standards, and extensive consumption and channel levels. The Group believes that the future skincare industry will still have ample market development dimensions and opportunities, and the Group will still focus on developing more skincare products and cosmetic businesses while further strengthening and expanding the core facial masks business.

In light of MG Brand's strategy to focus on the facial masks business, the Group will adopt the multi-brand strategy to develop other skincare and cosmetic businesses apart from the facial masks products.

The Group is thoroughly aware that the extensive skincare products sectors outside the facial masks business where we have distinct business strengths will be very competitive and therefore, the Group has all along been adopting a prudent and stable attitude and strategy. Under the demise of not weakening the development momentum of its core business, the Group will gradually develop the multi-brand and multi-category business after demonstrating the full market opportunities through brainstorming and verification, and comprehensive deployment of products and brands, talents and organisation and other resources.

In March 2010, the Group entered into a joint venture agreement with Hanbul Cosmetics Co. Ltd. ("**Hanbul**"), a reputable cosmetic company in Korea, planning to promote and sell the whole product line of the Korean made "It's Skin" and "ICS" branded cosmetic and skincare products. 廣州美即韓佛化妝品有限公司 has been established in the PRC in April 2011.

During the financial year under review, we completed the setting up of the board of directors and senior management of the joint venture, and had conducted a detailed and thorough market research and demonstration regarding the brand and business strategies of the joint venture in China, including the comprehensive planning of the above brand's positioning, product, packaging, pricing and channel distribution. Currently, such task has come to its completion stage, followed by the application for the permission of imported products. It is expected that the branded products of the joint venture will be launched to the market by the end of 2011 or at the beginning of 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

Moreover, we have commissioned Hanbul to label and process the production of our own “Keep Up” branded products in Korea, and the Keep Up Brand has already been launched by the Group in June 2011. The sales contribution by Keep Up Brand products for the year was approximately HK$12,946,000.

Hanbul has over 20 years of extensive experience in skincare and cosmetic products industry. By co-operating with Hanbul, the Group could enhance its capabilities in product research and development, production and quality control. By entering into the joint venture agreement, it signifies an important and solid step that the Group is moving towards the multi-brand and multi-category development strategy of its skincare and cosmetic product areas.

Quality control

The Group has all along been observing and up-keeping the principles of “Safety Goes First, Priority In Quality” in engaging in the production and control of our products. We have implemented stringently the laws and regulations such as “Product Quality Law（產品質量法）”, “Regulations Concerning the Hygiene Supervision Over Cosmetics（化妝品衛生監督條例）”, “Standardization Law（標準化法）”, “Regulations on the Administration of Production License for Industrial Products（工業產品生產許可證管理條例）” as production guidelines. We take proactive moves in knowing new trends and will react in a timely manner. We work from the basics to enhance our procedure administration to ensure the quality and safety of the Company’s products. Consumer heath protection and safety are our priority concern as they will maintain the high creditability of the Group and of consumers’ confidence in our products.

FUTURE PROSPECTS

Looking forward to the financial year of 2012, the Group will continue in improving and strengthening the core principal business of facial masks by aggressively acquiring more market share through brand building and sales channel coverage in the facial mask industry in PRC, while proactively and prudently facilitating a multi-brand and multi-category development strategy to earn better returns for its investors of the Company. Among which:

the Group will continue the implementation of consumers-oriented brand promotion strategy for the MG Brand, and will promote the development of facial mask products while consolidating the leading position of MG Brand in the industry.

the Group will also continue to enhance the channel expansion of MG Brand in the third and fourth tier cities, maintain the rapid growth in the number of third and fourth tier cities coverage and terminal stores; and also actively explore all kinds of new channels for facial masks sales, such as cosmetic-pharmaceutical shops and convenience stores. In addition, the Group will enhance the research on consumer needs and technology development of facial mask products for MG Brand and launch, on a timely basis, new products that will meet consumer needs and leads the facial mask development trend.

MANAGEMENT DISCUSSION AND ANALYSIS

In respect of “Keep Up”, “It’s Skin” and “ICS” brands, the Group will still focus on exploring and setting up a development model to lay a solid foundation for their long-term development. We expect that in the future, the aforementioned brands will surpass the stringent verification and preparation stage and enter into the essential sales marketing stage.

Looking back into the past years, the business of the Group had maintained a rapid growth (with CAGR of sales revenue of approximately 64.4% from 2007-2011). We firmly believe that, in order to maintain the long-term stable and healthy growth in results, we must concurrently enhance the business-related management systems in organization, talents, systems, procedures and information. Therefore, it will also be of paramount importance in our works of strengthening the aforesaid software construction. We will continue to enhance the co-operation with professional external resources and groups, strengthen the professional knowledge and enterprise culture training of our staff, and optimize and perfect different management systems of the Group.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2011, the Group had unpledged cash and bank balances of approximately HK$975,404,000 (2010: approximately HK$49,475,000). The gearing ratio for the Group was 0% (2010: 0%) as the Group had no outstanding bank borrowing as at 30 June 2011 (2010 outstanding bank loan: Nil). Net current assets was approximately HK$1,167,039,000 (2010: approximately HK$286,428,000) and current ratio was maintained at a healthy level of approximately 12.3 (2010: approximately 3.8) as at 30 June 2011.

The finance costs of the Group for the year amounted to HK$0 (2010: approximately HK$48,000), representing 0% (2010: approximately 0.01%) of the Group’s total sales revenue. No finance costs was incurred during the year.

COMMITMENTS

As at 30 June 2011, the Group had contracted commitments of approximately HK$28,856,000 (30 June 2010: HK$11,692,000).

CONTINGENT LIABILITIES

As at 30 June 2011, the Group did not have any significant contingent liabilities (30 June 2010: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BANK BORROWINGS

As at 30 June 2011, the Group had no outstanding bank loans (30 June 2010: Nil).

SEASONAL OR CYCLICAL FACTORS

During the year ended 30 June 2011, the Group's business operations were not significantly affected by any seasonal or cyclical factors.

FOREIGN EXCHANGE EXPOSURE

During the year ended 30 June 2011, the Group mainly generated sales revenue and incurred costs in Renminbi. In view of the expected appreciation of Renminbi, the Directors considered that the Group's exposure to fluctuation in foreign exchange rate was minimal, and accordingly, the Group did not employ any financial instruments for hedging purpose.

TREASURY POLICIES

During the year ended 30 June 2011, the Group generally financed its operations with internally generated resources. The Group placed these resources into interest-bearing bank accounts opened with PRC, Hong Kong and Macau banks and earned interests in accordance with the PRC, Hong Kong and Macau bank rates. Bank deposits were mainly denominated in Renminbi and Hong Kong Dollar.

EMPLOYEES, TRAINING AND REMUNERATION POLICIES

As at 30 June 2011, the Group had a total of 2,364 employees (2010: 1,328), of whom 2,359 were based in the PRC, with the rest stationed in Hong Kong. The employees of the Group were remunerated based on their experience, qualifications, the Group's performance as well as market conditions. During the year, staff costs (including Directors' remunerations) amounted to approximately HK$56,909,000 (2010: approximately HK$31,229,000). Staff costs accounted for 5.9% of the Group's sales revenue (2010: 4.9%) during the year. The increase of staff costs in the financial year was mainly attributable to the increase in wages and salaries as well as the share award expense of approximately HK$13,316,000. The Group participated in retirement benefit schemes for its staff both in Hong Kong and the PRC.

The Group has developed its training programmes in a structured and systematic manner for its management and employees. The Group provided regular management and technical related courses to its employees during the year.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Tang Siu Kun, Stephen *(鄧紹坤)*, aged 46, a co-founder of the Group, is the Chairman and an executive Director of the Company. He is responsible for the overall strategic planning, financial planning and corporate management of the Group. Mr. Tang graduated from the Curtin University of Technology in Australia with a bachelor's degree in commerce. Mr. Tang also obtained a master's degree in International Business Management from the City University of Hong Kong. He is currently a member of both the CPA Australia and a member of the Hong Kong Institute of Certified Public Accountants. He is the executive member of China Association of Poverty Alleviation and Development. Mr. Tang has over 10 years experience in corporate management and strategic planning and in the field of healthcare and skincare industry. Mr. Tang holds directorships in certain subsidiaries of the Company.

Mr. She Yu Yuan *(佘雨原)* ***(formerly known as She Dan Dan*** *(佘丹丹)* ***and She Jing Yang*** *(佘勁楊)* ***)***, aged 40, a co-founder of the Group, is the general manager and an executive Director of the Company appointed on 6 September 2010. He is responsible for overseeing the operations of the business of the Group. Mr. She graduated from South China University of Technology (華南理工大學) with a diploma in food engineering. He has over 10 years market and corporate management experience and possesses a strong market sense, strategic sight and innovative mind. Mr. She joined the Group in 2005 when the Group was founded. Mr. She holds directorships in certain subsidiaries of the Company.

Mr. Luo Yao Wen *(駱耀文)*, aged 53, a co-founder of the Group, is the deputy general manager and an executive Director of the Company appointed on 6 September 2010. He is responsible for overseeing the production and research and development of the Group. Prior to joining the 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 the Group in 2005 when the Group was founded and is the deputy general manager of Magic Holdings. Mr. Luo holds directorships in certain subsidiaries of the Company. He is the spouse of Ms. Wen Yan Juan, the head of the production department of the Group.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Zhang Kun Mou（張昆謀）, aged 48, was appointed as an executive Director of the 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 40, was appointed as an executive Director of the 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 Senior International Finance Manager by the International Financial Management Association in 2005. 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.

Non-executive Director

Mr. Sun Yan（孫燚）, aged 49, was appointed as a non-executive director of the Company on 27 October 2010. He obtained a Bachelor degree in Economics and Business Administration from 上海財經大學 (Shanghai University of Finance and Economics). He has over 20 years of experience in financing and investing in real estate projects. He worked for 中華人民共和國國家建設與環境保護部 (the Ministry of Housing and Urban-Rural Development of the People’s Republic of China) and 中國農村信託投資公司 (China Rural Trust and Investment Corporation) respectively. Mr. Sun has various experience in corporate governance. From January to September 2009, Mr. Sun served as an executive director of China Grand Forestry Green Resources Group Limited (stock code: 00910) whose shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (“**Stock Exchange**”). Currently, Mr. Sun is a director of Atlantis China Star Fund Limited, a shareholder of the Company.

Independent non-executive Directors

Professor Dong Yin Mao（董銀卯）, aged 48, is an independent non-executive Director of the 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 research and development, 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Professor Yang Rude *（楊汝德）*, aged 65, is an independent non-executive Director of the 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））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 and engaged in a cooperative scientific research at the Hong Kong Polytechnic University in 1996. He was promoted as a professor in 2000 at South China University of Technology（華南理工大學）and has been the head of Biological Pharmaceutical Engineering department（生物製藥工程系）. 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）. He has been appointed as a National Science and Technology Award Evaluation Expert（國家科學技術獎勵評審專家）. Currently, he is an executive of the Association of Microbiology of China（中國微生物學會）and the Honorary President of Association of Microbiology of Guangdong Province（廣東省微生物學會）.

Mr. Yan Kam Tong *（甄錦棠）*, aged 47, is an independent non-executive Director of the 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.

Senior Management

Mr. Cheng Wing Hong *（鄭永康）*, aged 37, is a member of the Hong Kong Institute of Certified Public Accountants. Mr. Cheng holds a master's degree in Practising Accounting from the Monash University. Mr. Cheng has over 12 years of experience in secretarial work, auditing, accounting, and financial management. Mr. Cheng is the assistant financial controller and the company secretary of the Company.

Mr. Feng Hong *（馮洪）*, aged 51, is the deputy general manager of the Group. In 2001, Mr. Feng was awarded the postgraduate graduate certificate from the Guangdong Academy of Social Science（廣東省社會科學院）majoring in economic management. Mr. Feng has over ten years experience in human resources and administration management. He joined the Group in 2005 when the Group was founded and is responsible for managing the human resources, administration, legal, public relations, pharmaceutical and project preparation issues of the Group.

Mr. Liu Liang Zhe *（劉良哲）*, aged 35, is the assistant to the general manager of the Group. Mr. Liu joined the 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 the Group.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Lu Min（盧敏）, aged 46, is the chief accountant of the Group. She joined us in 2005 when the 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 the Group.

Mr. Zhao Xin Fa（趙新發）, aged 36, is the head of the marketing department of the Group. Mr. Zhao joined the Group in 2005 when the Group was founded. Mr. Zhao graduated from the Hua Nan Tropical Agricultural University Academic College（華南熱帶農業大學文法學院）in 1997, majoring in public relations and secretarial study. He obtained a postgraduate diploma in integrated marketing from the University of Hong Kong in 2004. He has over eight years experience in sales and marketing.

Mr. Zeng Hui（曾暉）, aged 41, is the head of the sales department of the Group. Mr. Zeng joined the Group in 2005 when the 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 50, is the head of the production department of the Group. Ms. Wen joined the Group in 2005 when the 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 the Group's Production Department.

Mr. Piao Ying Zhe（朴英哲）, aged 38, is the head of the market research department of the Group. Mr. Piao joined the Group in 2006. Mr. Piao 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 the Company for over three years, his past positions held with the Company includes the manager of the communication department and head of the sales department.

Mr. Ho Cheung Ping Dawnie（何掌平）, aged 45, is the head of the corporate development department of the Group. Mr. Ho joined the Group in 2005 when the 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））.

Mr. Yu Bin（于彬）, aged 30, is the manager of budget management and customer services department of the Group. Mr. Yu joined the 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. He is currently studying a MBA programme in the School of Management of Lanzhou University（蘭州大學管理學院）.

REPORT OF THE DIRECTORS

The directors ("**Directors**") of Magic Holdings International Limited (the "**Company**") are pleased to present their report and the audited financial statements of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 30 June 2011.

CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands as a limited liability company on 9 February 2010 and the shares of the Company were listed on the Main Board of the Stock Exchange on 24 September 2010.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Group include the research and development, manufacture and sales and marketing of facial masks and other skincare products including the MG and Keep Up Brand in PRC. Details of the principal activities of the principal subsidiaries of the Company are set out in note 19 to the financial statements. There are no significant changes in the nature of the Group's principal activities during the year ended 30 June 2011.

RESULTS

The Group's profit for the year ended 30 June 2011 and its state of affairs as at 30 June 2011 are set out in the financial statements on pages 41 to 117.

FINAL DIVIDEND AND BONUS ISSUE

At a meeting of the Board held on 26 September 2011, the Directors recommended the payment of a final dividend of HK3.6 cents per share for the year ended 30 June 2011 totalling approximately HK$30,000,000 and a bonus issue of shares on the basis of 1 new ordinary share for every 5 existing ordinary shares held to the shareholders of the Company whose names appear on the register of members of the Company on 28 December 2011, subject to the approval of the shareholders of the Company in the Company's forthcoming Annual General Meeting and the grant by the Stock Exchange of the listing of, and the permission to deal in the bonus issue shares. The final dividend and share certificate of the bonus issue shares will be paid and despatched respectively on 20 January 2012, if the relevant resolutions have been passed at the forthcoming Annual General Meeting and the listing approval has been obtained from the Stock Exchange.

REPORT OF THE DIRECTORS

USE OF NET PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The Company was listed on the Main Board of the Stock Exchange on 24 September 2010. The net proceeds from the Company's issue of new shares (after deducting expenses relating specifically to the issue of new shares in the IPO and expenses relating generally to the listing of all the shares of the Company, whether existing or new) amounted to approximately HK$703 million.

As at 30 June 2011, the net proceeds of IPO had been utilised as follows:

	Planned amount per prospectus *HK$ million*	**Actual net IPO proceeds** *HK$ million*	**Amount utilised up to 30 June 2011** *HK$ million*	**Balance as at 30 June 2011** *HK$ million*
Promotion & Marketing Efforts	182	246	246	–
Establishing New Plant in Guangzhou & Purchasing New Equipments	130	176	12	164
Developing New Series Facial Masks & Skincare Products and Improving the functionality of existing products	104	141	58	83
Distribution & Promotion Costs for products under Joint Venture with Hanbul	52	70	12	58
Working Capital for daily operation of the Company & other corporate purposes	52	70	43	27
	520	703	371	332

REPORT OF THE DIRECTORS

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and prepared on the basis set out therein, is set out on page 118 of this annual report. This summary does not form part of the audited financial statements of the Group.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year ended 30 June 2011 are set out in note 15 to the financial statements.

SHARE CAPITAL, SHARE AWARD AND SHARE OPTIONS

Details of the Company's share capital and share award are set out in notes 26 and 27 to the financial statements.

The Company adopted a share option scheme on 6 September 2010 (the "**Share Option Scheme**"). As at 30 June 2011, the Company has not granted any options pursuant to the Share Option Scheme.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association (the "**Articles of Association**") or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders of the Company ("**Shareholders**") unless otherwise required by the Stock Exchange.

REPORT OF THE DIRECTORS

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company, nor any of its subsidiaries have purchased, redeemed or sold any of the Company's listed securities from the date of listing up to 30 June 2011.

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 30 June 2011 are set out in note 28(b) to the financial statements and in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

At 30 June 2011, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to HK$759,174,000, of which HK$30,000,000 has been proposed as final dividend for the year and a bonus issue of shares on the basis of 1 new ordinary share for every 5 existing ordinary shares after the reporting period. The amount of HK$759,174,000 includes the Company's share premium account and capital reserve of HK$745,831,000 in aggregate at 30 June 2011, which may be distributed provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

DONATIONS

During the year ended 30 June 2011, the Group made donations of RMB2,000,000 and HK$1,000,000 for charitable and other donations (2010: Nil).

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 30 June 2011, sales to the Group's largest and five largest customers accounted for approximately 16.7% and 56.6% (2010: 19.8% and 52.9% respectively) of the total sales for the Year respectively. Purchases from the Group's largest and five largest suppliers accounted for approximately 25.5% and 68.9% (2010: 13.7% and 49.8% respectively) of the total purchases for the Year respectively.

None of the Directors or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers or customers.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors during the year and up to the date of this report are:

Executive Directors:

Mr. Tang Siu Kun Stephen (appointed on 9 February 2010)
Mr. She Yu Yuan (appointed on 6 September 2010)
Mr. Luo Yao Wen (appointed on 6 September 2010)
Mr. Zhang Kun Mou (appointed on 6 September 2010)
Mr. Chen Lei (appointed on 6 September 2010)

Non-executive Director:

Mr. Sun Yan (appointed on 27 October 2010)

Independent non-executive Directors:

Mr. Yan Kam Tong (appointed on 6 September 2010)
Professor Dong Yin Mao (appointed on 6 September 2010)
Professor Yang Rude (appointed on 6 September 2010)

In accordance with Article 105(A) of the Articles of Association, Mr. Yan Kam Tong, Professor Dong Yin Mao and Professor Yang Rude will retire from the office of directorship by rotation at the forthcoming Annual General Meeting. Each of Mr. Yan Kam Tong, Professor Dong Yin Mao and Professor Yang Rude, being eligible, will offer himself for re-election as Director at the Annual General Meeting. All remaining Directors shall continue in office.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive Directors, an annual confirmation of their independence from the Group. Based on such confirmations, the Company considers that each of such Directors to be independent from the Group for the purpose of Rule 3.13 of the Rules (the "**Listing Rules**") Governing the Listing of Securities on the Stock Exchange.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 17 to 20 of this report.

REPORT OF THE DIRECTORS

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Tang Siu Kun Stephen, Mr. She Yu Yuan and Mr. Luo Yao Wen has entered into a service contract with the Company for an initial term of three years commencing from 1 September 2010, which is automatically renewable for successive terms of one year upon expiry of the then current term, until terminated by not less than three months' notice in writing served by either party on the other. Each of Mr. Zhang Kun Mou and Mr. Chen Lei has been appointed for an initial term of two years commencing from 1 September 2010, which is automatically renewable for successive terms of one year upon expiry of the then current term, unless terminated by not less than three months' notice in writing served by either party on the other.

The independent non-executive Directors and non-executive Director are appointed for specific terms and are subject to retirement by rotation in accordance with the Articles of Association.

No Director has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors are subject to retirement by rotation at least once every three years as required by the Articles of Association.

DIRECTORS' REMUNERATION

The board of Directors has the general power of determining the Directors' remuneration, subject to the authorisation of the Shareholders given at the Annual General Meeting of the Company each year. The remuneration of the executive Directors is subject to the review of the Company's remuneration committee, and their remuneration is determined with reference to Directors' qualifications, experience, duties, responsibilities and performance and results of the Group. As for the non-executive Directors and the independent non-executive Directors, their remuneration is determined by the board of Directors, upon recommendation of the Company's remuneration committee, with reference to the Directors' qualifications, experience, duties, responsibilities and performance and results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

Apart from the transactions disclosed in notes 34 to the financial statements, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party, subsisted at the end of the year ended 30 June 2011 or at any time during the year ended 30 June 2011.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended 30 June 2011 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in the Company.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2011, the interests and short positions of the Directors and chief executives of the Company in the shares or underlying shares or, as the case may be, the equity interest and debentures of the Company or its associated corporations (within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SF Ordinance**")) which were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SF Ordinance (including interests and short positions which he was taken or deemed to have under such provisions of the SF Ordinance), or which were required, pursuant to section 352 of the SF Ordinance, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, were as follows:

Name of Director	Name of Group member/associated corporation	Capacity	Number and class of securities *(Note 1)*	Approximate percentage of shareholding
Mr. Tang Siu Kun Stephen ("Mr. Tang")	The Company	Beneficial owner	4,813,712 Ordinary shares (L)	0.58%
	The Company	Interest of controlled corporations *(Note 2)*	75,328,393 Ordinary shares (L)	9.02%
	The Company	Grantee under the share award plan *(Note 3)*	4,011,712 Ordinary shares (L)	0.48%
Mr. She Yu Yuan ("Mr. She")	The Company	Beneficial owner	103,911,439 Ordinary shares (L)	12.45%
	The Company	Grantee under the share award plan *(Note 3)*	5,191,627 Ordinary shares (L)	0.62%
	The Company	Interest of spouse	839,051 Ordinary shares (L)	0.10%
Mr. Luo Yao Wen ("Mr. Luo")	The Company	Beneficial owner	32,066,248 Ordinary shares (L)	3.84%
	The Company	Grantee under the share award plan *(Note 3)*	1,599,441 Ordinary shares (L)	0.19%
	The Company	Interest of spouse	943,932 Ordinary shares (L)	0.11%
Mr. Tang and Mr. She	The Company	Trustee *(Note 4)*	28,960,285 Ordinary shares (L)	3.47%

REPORT OF THE DIRECTORS

Notes:

1. The letter "L" denotes long position in the shares of the Company or the relevant associated corporation.

2. Among these shares, 52,750,975 Shares were held through MG Company Limited, a company wholly-owned by Mr. Tang, and 22,577,418 Shares were held through Charm Magna Limited, a company wholly-owned by an independent third party on trust in favour of Mr. Tang.

3. These shares represent the shares of the Company which will be vested in and transferred to Mr. Tang, Mr. She and Mr. Luo from the trustee of the share award plan of Magic Holdings Group Limited adopted on 30 October 2009 ("**Share Award Plan**") upon vesting of the awarded shares in accordance with the terms and conditions of the awards made to him and the rules of the Share Award Plan.

4. These shares are held by Mr. Tang and Mr. She as trustee of the share award plan adopted by Magic Holdings Group Limited on 30 October 2009.

Save as disclosed above, as at the date of this report, none of the Directors and the chief executives of the Company had any interest and short positions in the shares, underlying shares or, as the case may be, the equity interests and debentures of the Company or its associated corporations (within the meaning of the SF Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SF Ordinance (including interests and short positions which he was taken or deemed to have under such provisions of the SF Ordinance), or which were required, pursuant to section 352 of the SF Ordinance, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules.

SHARE OPTION SCHEME

The Company has a share option scheme ("**Scheme**") which was adopted pursuant to a resolution in writing passed by all the shareholders on 6 September 2010, for the purpose of providing incentives or rewards to selected eligible participants for their contributions to the Group. The Scheme became effective on 24 September 2010 and, unless otherwise cancelled or amended, will remain in force for 10 years from such date.

Eligible participants of the Scheme include the following:

(i) any employee (whether full-time or part-time, including any executive director but excluding any non-executive director) of the Company, any of its subsidiaries or any entity ("**Invested Entity**") in which the Group holds an equity interest;

(ii) any non-executive director (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;

(iii) any supplier of goods or services to any member of the Group or any Invested Entity;

(iv) any customer of the Group or any Invested Entity;

(v) any person or entity that provides research, development or other technological support to the Group or any member of any Invested Entity;

REPORT OF THE DIRECTORS

(vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;

(vii) any adviser (professional or otherwise) or consultant to any area of business or business development of the Group or any Invested Entity; and

(viii) 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 the Group,

and for the purpose of the 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.

As at the date of this report, the total number of shares of the Company available for issue under the Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the shares in issue on the day on which trading of the shares commenced on the Stock Exchange, i.e. 80,000,000, representing 10% of the issued share capital of the Company as at the date of listing and approximately 9.58% of the issued share capital of the Company as at the date of this report.

No options have been granted under the Scheme as at 30 June 2011.

The maximum number of shares issuable upon exercise of the options which may be granted under the Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant (other than a substantial shareholder, chief executive or Director as explained below) in any 12 month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of share options in excess of this limit is subject to Shareholders' approval in a general meeting.

Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their respective associates (as defined under the Listing Rules), are subject to approval in advance by the independent non-executive Directors (excluding any independent non-executive director who is the grantee of the options). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, in the 12 month period up to and including the date of grant, are subject to Shareholders' approval in general meeting.

The offer of a grant of share options may be accepted by a participant within 21 days from the date of offer upon payment of a nominal consideration of HK$1 by the grantee. The exercise period for the share options granted is determined by the board of Directors, which period may commence from the date of acceptance of the offer for the grant of share options but shall end in any event not later than 10 years from the date of the grant of the options subject to the provisions for early termination under the Scheme.

REPORT OF THE DIRECTORS

The subscription price for Shares under the Scheme shall be a price determined by the board of Directors, but shall not be less than the highest of:

(i) the closing price of shares of the Company as stated in the daily quotation sheets of the Stock Exchange on the date of the offer of the grant, which must be a business day;

(ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of grant; and

(iii) the nominal value of the shares of the Company.

Subject to the earlier termination of the Scheme in accordance with the Scheme rules, the Scheme will expire on 24 September 2020.

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSUANT TO PART XV OF THE SF ORDINANCE

As at 30 June 2011, the following persons or entities, other than a Director or chief executive of the Company, had an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SF Ordinance:

Name of shareholder	Number of shares *(Note 1)*	Nature of interest	Approximate percentage of interest of the Company
Queenherb Enterprises Limited	207,481,537 (L)	Beneficial owner	25.00%
Hua Han Bio-Pharmaceutical Holdings Limited *(Note 2)*	207,481,537 (L)	Interest in controlled corporation	25.00%
Wu Xiao Qing *(Note 3)*	132,871,724 (L)	Interest of spouse	15.91%
	839,051 (L)	Grantee under the Share award Plan *(Note 4)*	0.10%
MG Company Limited *(Note 5)*	52,440,676 (L)	Beneficial owner	6.32%
Ho Ching Han *(Note 6)*	109,102,390 (L)	Interest of spouse	13.07%
Atlantis Investment Management (Hong Kong) Limited	92,437,950 (L)	Investment manager	11.07%
Liu Yang *(Note 7)*	92,437,950 (L)	Interest of controlled corporation	11.07%
Riverwood Asset Management (Cayman) Limited	48,008,545 (L)	Investment manager	5.75%
JP Morgan Chase & Co.	41,666,000 (L) *(Note 8)*	Investment manager	5.02%
	38,394,000 (P) *(Note 9)*	Custodian corporation/ approved lending agent	4.63%

REPORT OF THE DIRECTORS

Notes:

1. The letter "L" denotes long position in the shares of the Company or the relevant associated corporation.

2. Queenherb Enterprises Limited is a direct wholly-owned subsidiary of Hua Han Bio-Pharmaceutical Holdings Limited. Therefore, Hua Han Bio-Pharmaceutical Holdings Limited is deemed to be interested in the shares held by Queenherb Enterprises Limited under the SF Ordinance.

3. Wu Xiao Qing is the spouse of Mr. She, an executive Director, and she is therefore deemed to be interested in the shares in which She Yu Yuan is interested under the SF Ordinance.

4. These shares represent the shares of the Company which will be vested in and transferred to her from the trustee of the share award plan of Magic Holdings Group Limited adopted on 30 October 2009 ("**Share Award Plan**") upon vesting of the awarded shares in accordance with the terms and conditions of the awards made to him and the rules of the Share Award Plan.

5. MG Company Limited is a company wholly-owned by Mr. Tang.

6. Ho Ching Han is the spouse of Mr. Tang, an executive Director, and she is therefore deemed to be interested in the shares in which Mr. Tang is deemed to be interested under the SF Ordinance.

7. Liu Yang is the owner of Atlantis Investment Management (Hong Kong) Limited. Therefore, Liu Yang is deemed to be interested in the shares held by Atlantis Investment Management (Hong Kong) Limited under the SF Ordinance.

8. These shares were held by JF Asset Management Limited, which is held as to 100% by JP Morgan Asset Management (Asia) Inc., a company which is in turn wholly-owned by JP Morgan Asset Management Holdings Inc.. JP Morgan Asset Management Holdings Inc. is a wholly-owned subsidiary of JP Morgan Chase & Co..

9. These shares were held by JP Morgan Chase Bank, N.A., a direct wholly-owned subsidiary of JP Morgan Chase & Co..

Save as disclosed above, as at the date of this report, no person, or entity, other than a Director or chief executive of the Company, had an interest or a short position in the Shares and underlying Shares of the Company as recorded in the register required to be kept under section 336 of the SF Ordinance.

CONNECTED TRANSACTIONS

The companies now comprising the Group had entered into a number of transactions with parties which, upon the listing of the Company's shares on the Stock Exchange, became connected persons of the Company under the Listing Rules. Details of such transactions are set out in the section headed "Connected Transactions" in the prospectus dated 10 September 2010 (the "**Prospectus**") and the announcement dated 28 October 2010 and as follows:

Exclusive Distribution Agreement

Date: 3 September 2010

Parties: (1) Hanbul Cosmetics Co., Ltd. ("**Hanbul**") as supplier (Hanbul, a substantial shareholder of Magic-Hanbul Holdings Limited and a joint venture partner of the Group under MG JV Group (as defined in the Prospectus)), which comprised of certain indirect 51%-owned subsidiaries of the Company, is a connected person of the Company); and

(2) Magic-Hanbul Holdings Limited, an indirect 51%-owned subsidiary of the Company, as distributor

REPORT OF THE DIRECTORS

Terms: Members of the MG JV Group shall act as the exclusive distributor of Hanbul for certain skincare and cosmetics products in stipulated territories

Price: FOB product prices (inclusive of packaging costs), which shall be determined prior to the beginning of each financial year 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

Caps: HK$0, HK$10.9 million and HK$54.5 million for the three years ending 30 June 2012

OEM Manufacturing Agreement

Date: 29 April 2010

Parties: (1) Hanbul as producer; and

(2) 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, as purchaser

Terms: the Group agreed to engage Hanbul to produce and manufacture certain skincare and cosmetics products in Korea

Price: Determined from time to time 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

Caps: HK$0, HK$9.9 million and HK$14.4 million for the three years ending 30 June 2012

For the year ended 30 June 2011, there was no transaction under either the Exclusive Distribution Agreement or the OEM Manufacturing Agreement.

TRADEMARKS ASSIGNMENT

On 28 April 2011, Magic-Hanbul Holdings Limited as assignee and It's Skin Co., Ltd., wholly-owned subsidiary of Hanbul, agreed to assign, and Magic-Hanbul Holdings Limited agreed to be assigned, certain trademarks and the associated goodwill of the brand "It's Skin" at the consideration of US$100,000.

On 28 April 2011, Magic-Hanbul Holdings Limited as assignee and Hanbul as assignor entered into the trademark assignment, pursuant to which Hanbul agreed to assign, and Magic-Hanbul Holdings Limited agreed to be assigned, certain trademarks and the associated goodwill of the brand "ICS" at the consideration of US$100,000, which will be payable upon the completion of assignment. As at the end of the reporting period and up to the date of this report, the trademark assignments have not been completed.

The related party transactions disclosed in notes 34 to financial statements constitute connected transactions under Chapter 14A of the Listing Rules.

REPORT OF THE DIRECTORS

SHARE AWARD GRANTED TO THE CONNECTED PERSONS

During the year, the Company had granted an aggregate of 12,847,967 award shares (the "**Awards**"), representing approximately 1.55% of the issued share capital of the Company as at the grant date, to an aggregate of seven grantees. Six of these seven grantees are being connected persons of the Company, namely Mr. Tang Siu Kun, Stephen, the Chairman and an executive Director of the Company, Mr. She Yu Yuan, an executive Director, Mr. Luo Yao Wen, an executive Director, Miss Wen Yan Juan, spouse of Luo Yao Wen, Miss Wu Xiao Qing, spouse of She Yu Yuan and Miss She Minghong, sister of She Yu Yuan, and hence the Awards to each of them constitute connected transactions on the part of the Company under Chapter 14A of the Listing Rules. Details of the Awards are set out in the announcement of the Company dated 28 October 2010.

UNDERTAKING OF EXPENSES IN RELATING TO THE LISTING OF THE SHARES OF THE COMPANY BY CONNECTED PERSONS

During the year, three of the executive Directors of the Company, namely Mr. Tang Siu Ku, Stephen, Mr. She Yu Yuan and Mr. Luo Yao Wen and one of the senior management Mr. Ho Cheung Ping, Dawnie agreed to undertake an aggregate amount of share issue expenses of HK$10,161,000 incurred by the Company relating to the listing of the shares of the Company.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the year ended 30 June 2011.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by public as at the date of this report.

CORPORATE GOVERNANCE

In the opinion of the Directors, the Company has complied with the Code on Corporate Governance Practices (the "**Code**") as set out in Appendix 14 to the Listing Rules since the listing of the shares of the Company on the Stock Exchange. Please refer to the Corporate Governance Report on pages 35 to 38 of this Annual Report.

REPORT OF THE DIRECTORS

AUDIT COMMITTEE

The Board has established an audit committee (the "**Committee**") in accordance with the requirements of the Code Provisions. The primary duties of the Committee include reviewing and providing supervision over the financial reporting procedures and internal controls of the Group. The Committee currently comprises Mr. Yan Kam Tong, Professor Dong Yin Mao and Professor Yang Rude, the three independent non-executive Directors. The Group's financial statements for the year have been reviewed by the Committee, which is of the opinion that such financial statements comply with the applicable accounting standards, and the requirements of the Listing Rules and the applicable laws, and that adequate disclosures have been made.

AUDITORS

Ernst & Young retire and a resolution of their reappointment as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

Tang Siu Kun Stephen
Chairman

Hong Kong
26 September 2011

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE

The Board is committed to achieving high standards of corporate governance and to leading the Group to grow in an efficient manner in light of the Group's vision and mission to improve its corporate operations and procedures.

For the year ended 30 June 2011, the Company had complied with the principles and code provisions ("**Code Provisions**") of the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors and senior management of the Group in September 2010 on terms no less exacting than the required standard set out in Appendix 10 to the Listing Rules (the "**Model Code**"). Having made specific enquiries of all Directors and senior management of the Group, all Directors and senior management of the Group have complied with the required standard set out in the Model Code and the Company's code of conduct regarding securities transactions by Directors and senior management of the Group from the date of listing to the date of this report.

BOARD OF DIRECTORS

The Board is currently composed of five executive Directors comprising Mr. Tang Siu Kun Stephen as the Chairman, Mr. She Yu Yuan, Mr. Luo Yao Wen, Mr. Zhang Kun Mou and Mr. Chen Lei; one non-executive Director comprising Mr. Sun Yan; and three independent non-executive Directors comprising Mr. Yan Kam Tong, Professor Dong Yin Mao and Professor Yang Rude. The biographical details of the Directors are set out on pages 17 to 20 of this report. All Directors are subject to retirement from office by rotation and may offer themselves for re-election at the annual general meeting of the Company in accordance with the provisions of the articles of association of the Company. Each of Mr. Tang Siu Kun Stephen, Mr. She Yu Yuan and Mr. Luo Yao Wen is appointed as executive Director for an initial term of three years renewable automatically for successive terms of one year. Each of Mr. Zhang Kun Mou and Mr. Chen Lei is appointed as executive Director for an initial term of two years renewable automatically for successive terms of one year. The non-executive Director is appointed for an initial term of two years renewable automatically for successive terms of one year. Each independent non-executive Director is appointed for an initial term of two years renewable automatically for successive terms of one year.

CORPORATE GOVERNANCE REPORT

The Board is responsible for the leadership and control of the Company and overseeing the Group's businesses, strategic decisions and performances. The Board is delegated with the authority and responsibility for the management of the Group. In addition, the Board has also established various Board committees, including the audit committee (the "**Audit Committee**") and the remuneration committee (the "**Remuneration Committee**") (together, the "**Board Committees**"), on 6 September 2010 and has delegated various responsibilities to it.

The Company has adopted the practice of holding regular Board meetings at least four times a year. Apart from regular board meetings, the Board will meet on other occasions when a board level decision on a particular matter is required. Each of the members of the Board has full access to relevant information at the meetings.

The executive Directors and senior management of the Company, as delegated by the Board, are responsible for implementing the determined strategies and policies and the day-to-day management of the Group's business.

The Company has received from each of the independent non-executive Directors a written confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company thus considers all the independent non-executive Directors to be independent.

The attendance record for the Board meeting during the year ended 30 June 2011 is as follows:

Directors	**Meetings Attended/ Number of Meetings Held**
Mr. Tang Siu Kun, Stephen	7/7
Mr. She Yu Yuan	6/7
Mr. Luo Yao Wen	6/7
Mr. Sun Yan	3/7
Mr. Zhang Kun Mou	5/7
Mr. Chen Lei	5/7
Professor Dong Yin Mao	4/7
Professor Yang Rude	4/7
Mr. Yan Kam Tong	4/7

NOMINATION OF DIRECTORS

The Board has not set up a nomination committee. The nomination of new Directors will be decided by the Board. They review regularly the need to appoint additional Directors with appropriate professional knowledge and industry experience. The Board will then consider the candidates nominated by them for appointment as Directors.

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE

The Remuneration Committee was established on 6 September 2010 with specific written terms of reference in accordance with the requirements of the Code and is currently composed of five members, comprising three independent non-executive Directors, namely Professor Dong Yin Mao (Chairman), Mr. Yan Kam Tong and Professor Yang Rude and two executive Directors, Mr. Tang Siu Kun Stephen and Mr. She Yu Yuan.

The primary role of the Remuneration Committee is to make recommendations on the remuneration policies and packages for the Directors and senior management of the Company. No Director takes part in any discussions about his own remuneration.

Generally, the employees of the Group (including the Directors) are remunerated based on their experience and qualifications, the Group's performance as well as market conditions.

The attendance record for the Committee's meeting during the year ended 30 June 2011 is as follows:

Directors	**Meetings Attended/ Number of Meetings Held**
Professor Dong Yin Mao *(Chairman)*	3/3
Professor Yang Rude	1/3
Mr. Yan Kam Tong	3/3
Mr. Tang Siu Kun Stephen	3/3
Mr. She Yu Yuan	1/3

AUDIT COMMITTEE

The Audit Committee was established in September 2010 with specific written terms of reference which have been prepared and adopted according to the Code Provisions.

The Audit Committee comprises three independent non-executive Directors, namely Mr. Yan Kam Tong (Chairman), Professor Dong Yin Mao and Professor Yang Rude. The chairman of the Audit Committee possesses the appropriate professional and accounting qualifications, and is therefore in compliance with Rule 3.21 of the Listing Rules.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the group audit. It also reviews the annual and interim reports of the Company prior to their approval by the Board, the effectiveness of the external and internal audit and of internal controls and risk evaluation.

CORPORATE GOVERNANCE REPORT

The attendance record for the Committee's meeting during the year ended 30 June 2011 is as follows:

Directors	Meetings Attended/ Number of Meetings Held
Mr. Yam Kam Tong *(Chairman)*	2/2
Professor Dong Yin Mao	2/2
Professor Yang Rude	2/2

AUDITORS' REMUNERATIONS

During the year ended 30 June 2011, the remunerations paid or to be payable to Ernst & Young in respect of statutory audit services was HK$1,600,000.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The Directors are responsible for the preparation of financial statements for each financial period which give a true and fair view of the state of affairs of the Group. In preparing the financial statements for the year ended 30 June 2011, the Directors have selected appropriate accounting policies and applied them consistently, and have prepared the financial statements on a going concern basis.

INTERNAL CONTROL

The Board and the management of the Group maintain a sound and effective system of internal control of the Group so as to ensure the effectiveness and efficiency of operations of the Group. The Board is also responsible for making appropriate assertions on the adequacy of internal control and procedures. The Board reviews the effectiveness of these systems on a regular basis through the Audit Committee.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company has established the following communication channels with shareholders and investors: (i) despatching printed copies of corporate communication documents to shareholders; (ii) the opportunity for shareholders to raise comments and exchange views with the Board during each annual general meeting; (iii) providing the latest and key information of the Group through the website of the Company; and (iv) the Company's Registrar serves the shareholders in respect of all share registration matters.

COMPLIANCE ADVISER

For the purpose of and in compliance with Rule 3A.19 of the Listing Rules, the Company has appointed Haitong International Capital Limited as its compliance adviser for the period from 24 September 2010, being the date on which the Shares first commenced trading on the Stock Exchange and to the date on which the Company dispatched its annual report in respect of its financial results for the first full financial year after the date of listing of the shares of the Company on the Stock Exchange.

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG
安 永

To the shareholders of Magic Holdings International Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Magic Holdings International Limited (the "**Company**") and its subsidiaries (together, the "**Group**") set out on pages 41 to 117, which comprise the consolidated and company statements of financial position as at 30 June 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

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

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

INDEPENDENT AUDITORS' REPORT

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong
26 September 2011

CONSOLIDATED INCOME STATEMENT

Year ended 30 June 2011

	Notes	2011 HK$'000	2010 HK$'000
REVENUE	6	**957,322**	631,039
Cost of sales		**(221,572)**	(145,323)
Gross profit		**735,750**	485,716
Other income and gains	6	**14,507**	1,851
Selling and distribution costs		**(492,516)**	(332,621)
Administrative expenses		**(53,612)**	(29,767)
Fair value gain on derivative financial instruments	35	**–**	17,245
Gain on derecognition of derivative financial instruments	35	**5,100**	–
Finance costs	7	**–**	(48)
PROFIT BEFORE TAX	8	**209,229**	142,376
Income tax expense	11	**(49,075)**	(24,930)
PROFIT FOR THE YEAR		**160,154**	117,446
Attributable to:			
Equity holders of the Company	12	**160,523**	118,583
Non-controlling interests		**(369)**	(1,137)
		160,154	117,446
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	14		
Basic		**HK20.6 cents**	HK19.6 cents
Diluted		**HK20.6 cents**	HK19.6 cents

Details of the dividends are disclosed in note 13 to the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 30 June 2011

	2011 *HK$'000*	2010 *HK$'000*
PROFIT FOR THE YEAR	**160,154**	117,446
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	**21,626**	1,314
Income tax effect	**–**	–
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**21,626**	1,314
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**181,780**	118,760
Attributable to:		
Equity holders of the Company	**181,910**	119,840
Non-controlling interests	**(130)**	(1,080)
	181,780	118,760

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**14,178**	1,393
Goodwill	16	**15,772**	15,772
Intangible asset	17	**24,049**	26,746
Deferred tax asset	18	**1,283**	1,346
Prepayments and deposits	22	**41,723**	13,698
Total non-current assets		**97,005**	58,955
CURRENT ASSETS			
Inventories	20	**14,845**	8,541
Trade receivables	21	**181,248**	111,588
Amounts due from related parties	34(b)	**–**	127,331
Prepayments, deposits and other receivables	22	**97,596**	91,369
Tax recoverable		**877**	–
Cash and cash equivalents	23	**975,404**	49,475
Total current assets		**1,269,970**	388,304
CURRENT LIABILITIES			
Trade payables	24	**45,401**	29,458
Other payables and accruals	25	**34,311**	23,744
Derivative financial instruments	35	**–**	5,100
Amounts due to related parties	34(b)	**–**	31,999
Tax payable		**23,219**	11,575
Total current liabilities		**102,931**	101,876
NET CURRENT ASSETS		**1,167,039**	286,428
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,264,044**	345,383
NON-CURRENT LIABILITY			
Deferred tax liabilities	18	**6,012**	6,687
Net assets		**1,258,032**	338,696

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2011

	Notes	**2011** **HK$'000**	2010 HK$'000
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	*26*	**83,491**	170
Reserves	*28(a)*	**1,158,213**	333,338
		1,241,704	333,508
Non-controlling interests		**16,328**	5,188
Total equity		**1,258,032**	338,696

Tang Siu Kun, Stephen
Director

She Yu Yuan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 30 June 2011

	Attributable to equity holders of the Company										
	Issued capital HK$'000 Note (a)	Share premium account HK$'000 Note (a)	Share award reserve HK$'000	Merger reserve HK$'000	Capital reserve HK$'000 Note (b)	Statutory reserve fund HK$'000 Note (c)	Retained profits HK$'000	Exchange fluctuation reserve HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 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 Group Limited ("**Magic Holdings**") *(Note 35)*	168	39,887	–	–	–	–	–	–	40,055	–	40,055
Share issue expenses *(Note 35)*	–	(765)	–	–	–	–	–	–	(765)	–	(765)
Share award expenses *(Note 27)*	–	–	11,269	–	–	–	–	–	11,269	–	11,269
Profit for the year	–	–	–	–	–	–	118,583	–	118,583	(1,137)	117,446
Other comprehensive income for the year: Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	1,257	1,257	57	1,314
Transfer to statutory reserve fund	–	–	–	–	–	4,658	(4,658)	–	–	–	–
At 30 June 2010 and 1 July 2010	170	39,122*	11,269*	4,757*	61,149*	15,315*	190,301*	11,425*	333,508	5,188	338,696
Allotment of shares by Magic Holdings to share award trustees immediate before pre-listing share swap *(Note 27)*	9	–	–	–	–	–	–	–	9	–	9
Allotment and issuance of 2,288,299 nil paid shares on 5 September 2010 and credited as fully paid on 6 September 2010 *(Note 26(d) and 26(e)(ii))*	229	(229)	–	–	–	–	–	–	–	–	–
Allotment and issuance of 2,288,300 shares credited as fully paid on 6 September 2010 *(Note 26(e)(i))*	229	(229)	–	–	–	–	–	–	–	–	–
Exchange of shares upon group reorganisation	(179)	(39,122)	–	–	39,301	–	–	–	–	–	–
Capitalisation issues *(Note 26(f))*	59,542	(59,542)	–	–	–	–	–	–	–	–	–
Issue of shares *(Note 26(g) and Note 26(h))*	23,000	736,000	–	–	–	–	–	–	759,000	–	759,000
Share issue expenses	–	(46,039)	–	–	–	–	–	–	(46,039)	–	(46,039)
2010 special dividend *(Note 13)*	–	(29,267)	–	–	–	–	–	–	(29,267)	–	(29,267)
Issuance of shares to settle 2010 special dividend *(Notes 13 and 26)*	491	28,776	–	–	–	–	–	–	29,267	–	29,267
Share award expenses *(Note 27)*	–	–	13,316	–	–	–	–	–	13,316	–	13,316
Profit for the year	–	–	–	–	–	–	160,523	–	160,523	(369)	160,154
Other comprehensive income for the year: Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	21,387	21,387	239	21,626
Contribution from a non-controlling shareholder of a subsidiary *(Note 19(a))*	–	–	–	–	–	–	–	–	–	11,270	11,270
At 30 June 2011	83,491	629,470*	24,585*	4,757*	100,450*	15,315*	350,824*	32,812*	1,241,704	16,328	1,258,032

* *These reserve accounts comprise the consolidated reserves of HK$1,158,213,000 (2010: HK$333,338,000) in the consolidated statement of financial position.*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 30 June 2011

Notes:

(a) Magic Holdings was incorporated with an authorised share capital of US$50,000 of 50,000 shares of US$1 each and 200 shares of US$1 each were issued prior to 1 July 2009. On 1 July 2009, 19,800 additional shares of US$1 each were issued at par. During the year ended 30 June 2010, 1,739 shares of US$1 each were issued at an aggregate subscription price of HK$62,400,000 immediately prior to the pre-listing share swap, 1,144 shares of US$1 each were issued to the share award trustees. Since the pre-listing share swap between the Company and the then equity holders of Magic Holdings was completed on 6 September 2010, share capital of HK$170,000 as at 30 June 2010 represented the share capital of Magic Holdings. The share capital movements of the Company are set out in note 26 to the financial statements.

(b) Capital reserve represents (i) excess capital paid over the issued capital of Magic Holdings by then shareholders in prior years amounted to HK$61,149,000 and (ii) the then issued capital and share premium of Magic Holdings amounted to HK$39,301,000 upon group reorganisation during the year.

(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 fund. When the balance of the statutory reserve fund 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.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 30 June 2011

	Notes	2011 HK$'000	2010 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**209,229**	142,376
Adjustments for:			
Finance costs	7	**–**	48
Bank interest income	6	**(1,875)**	(77)
Depreciation	8	**845**	490
Amortisation of an intangible asset	8	**3,915**	3,791
Equity-settled share award expenses	27	**13,316**	11,269
Loss on disposal of items of property, plant and equipment	8	**–**	101
Gain on disposal of a subsidiary	30	**–**	(1,369)
Fair value gain on derivative financial instruments	35	**–**	(17,245)
Gain on derecognition of derivative financial instruments	35	**(5,100)**	–
		220,330	139,384
Increase in inventories		**(6,304)**	(4,004)
Increase in trade receivables		**(69,660)**	(16,724)
Increase in prepayments, deposits and other receivables		**(6,112)**	(33,505)
Increase in trade payables		**15,943**	6,853
Increase in other payables and accruals		**10,567**	16,239
Exchange realignment		**20,465**	2,322
Cash generated from operations		**185,229**	110,565
Bank interest received		**1,875**	77
Interest paid		**–**	(48)
Overseas tax paid		**(39,224)**	(27,998)
Net cash flows from operating activities		**147,880**	82,596
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease/(increase) in amounts due from related parties, net		**127,331**	(78,093)
Purchases of items of property, plant and equipment	15	**(10,608)**	(578)
Deposits paid for purchase of a land use right		**–**	(13,594)
Deposits paid for acquisition of leasehold land and buildings	22	**(28,025)**	–
Acquisition of a subsidiary	29	**(2,881)**	–
Disposal of a subsidiary	30	**–**	1,136
Repayment to a former subsidiary		**–**	(1,136)
Increase in non-pledged deposit with original maturity of over three months when acquired	23	**(120,247)**	–
Net cash flows used in investing activities		**(34,430)**	(92,265)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 30 June 2011

	Notes	2011 HK$'000	2010 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contribution from a non-controlling shareholder of a subsidiary		**11,270**	–
Decrease in amounts due to related parties, net		**(31,999)**	(9,977)
Proceeds from issuance of shares of the Company	*26*	**759,000**	–
Share issue expenses, net	*34(e)*	**(46,039)**	–
Proceeds from issuance of shares of Magic Holdings, net	*35*	**–**	61,635
Net cash flows from financing activities		**692,232**	51,658
NET INCREASE IN CASH AND CASH EQUIVALENTS		**805,682**	41,989
Cash and cash equivalents at beginning of year		**49,475**	7,486
CASH AND CASH EQUIVALENTS AT END OF YEAR		**855,157**	49,475
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balance	*23*	**842,168**	49,475
Non-pledged time deposits with original maturity of over than three months when acquired	*23*	**120,247**	–
Non-pledged time deposits with original maturity of less than three months when acquired	*23*	**12,989**	–
Cash and cash equivalents as stated in the consolidated statement of financial position		**975,404**	49,475
Less: Non-pledged time deposits with original maturity of over three months when acquired	*23*	**(120,247)**	–
Cash and cash equivalents as stated in the consolidated statement of cash flows		**855,157**	49,475

STATEMENT OF FINANCIAL POSITION

30 June 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSET			
Investments in subsidiaries	19	**116,540**	–
CURRENT ASSETS			
Amount due from subsidiaries	19	**180,670**	–
Prepayments	22	**–**	2,496
Other receivables	22	**–**	4,701
Cash and bank balances	23	**545,634**	–
Total current assets		**726,304**	7,197
CURRENT LIABILITY			
Other payables	25	**179**	7,197
NET CURRENT ASSETS		**726,125**	–
Net assets		**842,665**	–
EQUITY			
Issued capital	26	**83,491**	–
Reserves	28(b)	**759,174**	–
Total equity		**842,665**	–

Tang Siu Kun, Stephen
Director

She Yu Yuan
Director

NOTES TO FINANCIAL STATEMENTS

30 June 2011

1. CORPORATE INFORMATION AND REORGANISATION

Magic Holdings International Limited is a limited liability company incorporated in the Cayman Islands on 9 February 2010. The principal place of business of the Company is Suite 802, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong.

Pursuant to the group reorganisation (the "**Reorganisation**") to rationalise the structure of the Company and its subsidiaries in preparation for the listing of the Company's shares (the "**Listing**") on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), the Company became the holding company of Magic Holdings Group Limited ("**Magic Holdings**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") on 6 September 2010. Further details of the Reorganisation are set out in the Company's listing prospectus dated 10 September 2010 (the "**Prospectus**"). The shares of the Company were listed on the Stock Exchange on 24 September 2010.

Pursuant to two voting-in-concert undertakings (the "**Voting-in-concert Undertakings**") provided by two of the then shareholders of Magic Holdings to Hua Han Bio-Pharmaceutical Holdings Limited ("**HHBP**"), a company incorporated in the Cayman Islands and listed on the Stock Exchange, these two shareholders would vote in accordance with HHBP's decision. Taking into consideration of the Voting-in-concert Undertakings, the directors of the Company considered that HHBP was the ultimate holding company of the Group as at 30 June 2010 and up to the listing of the Company on the Stock Exchange on 24 September 2010. The Voting-in-concert Undertakings were cancelled upon the Listing and HHBP was then only able to secure control of 26% of the voting power of the Company, and thus the Company became an associate of HHBP thereafter.

During the year, the Group was principally engaged in the manufacture and sale of facial masks and other skincare products in Mainland China.

2.1 BASIS OF PRESENTATION

Since the Company and the companies now comprising the Group were under common control both before and after the completion of the Reorganisation, the Reorganisation was accounted for using merger method of accounting. The financial statements have been prepared on the basis as if the Company has always been the holding company of the companies now comprising the Group.

The consolidated statements of financial position as at 30 June 2011 and 2010, and the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of cash flows and the consolidated statements of changes in equity of the Group for each of the two years then ended include the results of all companies now comprising the Group, as if the current structure had been in existence throughout the years ended 30 June 2011 and 2010, or since their respective dates of acquisition, incorporation/establishment, where this is a shorter period.

NOTES TO FINANCIAL STATEMENTS

30 June 2011

2.1 BASIS OF PRESENTATION (continued)

In the opinion of the directors of the Company, the consolidated financial statements prepared on the above basis present more fairly the results and state of affairs of the Group as a whole.

2.2 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain derivative financial instruments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("**HK$**") and all values are rounded to the nearest thousand (**HK$'000**) except when otherwise indicated.

Basis of consolidation

Basis of consolidation from 1 July 2009

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 30 June 2011. The financial statements of the subsidiaries are prepared for the same reporting period of the Company, using consistent accounting policies. 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. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

NOTES TO FINANCIAL STATEMENTS

30 June 2011

2.2 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

Basis of consolidation from 1 July 2009 (continued)

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to the consolidated income statement or retained profits, as appropriate.

Basis of combination prior to 1 July 2009

All of the above-mentioned requirements for consolidation from 1 July 2009 have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of combination:

- Losses incurred by the Group were attributed to the non-controlling interest (formerly known as minority interest) until the balance was reduced to nil. Any further excess losses were attributable to the Company, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 July 2009 were not reallocated between non-controlling interest and the Company's shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 July 2009 has not been restated.

NOTES TO FINANCIAL STATEMENTS

30 June 2011

2.3 CHANGE IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*
HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009
HK Interpretation 4 Amendment	Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*
HK Interpretation 5	*Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*

NOTES TO FINANCIAL STATEMENTS

30 June 2011

2.3 CHANGE IN ACCOUNTING POLICY AND DISCLOSURES (continued)

The principal effects of adopting these new and revised HKFRSs are as follows:

Improvements to HKFRSs 2009 issued in May 2009 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- HKAS 7 *Statement of Cash Flows*: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

- HKAS 17 *Leases*: Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in HKAS 17.

Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases* is revised as a consequence of the amendment to HKAS 17 *Leases* included in *Improvements to HKFRSs 2009*. Following this amendment, the scope of HK Interpretation 4 has been expanded to cover all land leases, including those classified as finance leases. As a result, this interpretation is applicable to all leases of property accounted for in accordance with HKAS 16, HKAS 17 and HKAS 40.

NOTES TO FINANCIAL STATEMENTS

30 June 2011

2.3 CHANGE IN ACCOUNTING POLICY AND DISCLOSURES (continued)

The Group has reassessed its leases in Mainland China, previously classified as operating leases, upon the adoption of the amendments. The classification of the Group's leases in Mainland China remained as operating leases.

The adoption of the above new and revised HKFRSs has had no significant financial effect on these financial statements.

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[2]
HKFRS 9	*Financial Instruments*[5]
HKFRS 10	*Consolidated Financial Statements*[5]
HKFRS 11	*Joint Arrangements*[5]
HKFRS 12	*Disclosure of Interests in Other Entities*[5]
HKFRS 13	*Fair Value Measurement*[5]
HKFRS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*[3]
HKAS 1 Amendments	*Presentation of Financial Statements*[4]
HKAS 19 (2011)	*Employee Benefits*[5]
HKAS 24 (Revised)	*Related Party Disclosures*[1]
HKAS 27 (2011)	*Separate Financial Statements*[5]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[5]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*[1]

NOTES TO FINANCIAL STATEMENTS

30 June 2011

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Apart from the above, the HKICPA has issued Improvements to HKFRSs 2010 which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

[1] *Effective for annual periods beginning on or after 1 January 2011*
[2] *Effective for annual periods beginning on or after 1 July 2011*
[3] *Effective for annual periods beginning on or after 1 January 2012*
[4] *Effective for annual periods beginning on or after 1 July 2012*
[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 and not yet in a position to state whether these new and revised HKFRSs would have any significant impact on the Group's results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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.

NOTES TO FINANCIAL STATEMENTS

30 June 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint ventures (continued)

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.

Business combinations and goodwill

Business combinations from 1 July 2009

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

NOTES TO FINANCIAL STATEMENTS

30 June 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Business combinations from 1 July 2009 (continued)

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 30 June. 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. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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.

NOTES TO FINANCIAL STATEMENTS

30 June 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Business combinations prior to 1 July 2009

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1 July 2009:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

NOTES TO FINANCIAL STATEMENTS

30 June 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

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 statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued 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 statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

NOTES TO FINANCIAL STATEMENTS

30 June 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 statement 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.

NOTES TO FINANCIAL STATEMENTS

30 June 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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:

Building	2% to 5%
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 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 income statement in the year the asset is derecognised is the difference between the net sale proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

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 year 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.

NOTES TO FINANCIAL STATEMENTS

30 June 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and development costs

All research costs are charged to the income statement 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 operating leases net of any incentives received from the lessor are charged to the income statement 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 related parties, other receivables and 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 income statement. The loss arising from impairment is recognised in finance costs in the income statement.

NOTES TO FINANCIAL STATEMENTS

30 June 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 when:

- the rights to receive cash flows from the asset have expired; or
- 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.

NOTES TO FINANCIAL STATEMENTS

30 June 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

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.

NOTES TO FINANCIAL STATEMENTS

30 June 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

The Group's financial liabilities include trade and other payables, amounts due to related parties and an interest-bearing bank loan.

After initial recognition, the 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 income statement 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 income statement.

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 income statement.

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.

NOTES TO FINANCIAL STATEMENTS

30 June 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a 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.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

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 consolidated statement 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 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.

NOTES TO FINANCIAL STATEMENTS

30 June 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, associates and 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, associates and 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.

NOTES TO FINANCIAL STATEMENTS

30 June 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

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.

NOTES TO FINANCIAL STATEMENTS

30 June 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 rate 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 and a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. 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 of the share awards granted prior to the listing of the Company is determined by an external valuer using a discounted cash flow method; while the share awards granted after the listing of the Company is estimated based on the market value of the shares at the date of grant. Further details of which are given in note 27 to the consolidated financial statements.

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.

NOTES TO FINANCIAL STATEMENTS

30 June 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions (continued)

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 schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "**MPF Scheme**") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, 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 a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

NOTES TO FINANCIAL STATEMENTS

30 June 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

These financial statements 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 income statement. 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 dollar. 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 income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. 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 income statement.

For the purpose of the consolidated statement 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 are translated into Hong Kong dollars at the weighted average exchange rates for the year.

NOTES TO FINANCIAL STATEMENTS

30 June 2011

4. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

The preparation of the Group's financial statements 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 end of 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 statements:

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 the 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.

NOTES TO FINANCIAL STATEMENTS

30 June 2011

4. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

Estimation uncertainty (continued)

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 2011 was HK$15,772,000 (2010: HK$15,772,000). More details are given in note 16 to the consolidated financial statements.

Impairment of an intangible asset

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 amount of the Group's intangible asset at 30 June 2011 was HK$24,049,000 (2010: HK$26,746,000). More details are given in note 17 to the consolidated financial statements.

5. OPERATING 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 during the year, which is the research and development, manufacture and sale of facial masks and other skincare products, no further analysis thereof is presented.

Besides, the Group's customers and non-current assets are solely in the PRC, no further analysis on the geographical information is presented.

NOTES TO FINANCIAL STATEMENTS

30 June 2011

5. OPERATING SEGMENT INFORMATION (continued)

Information about major customers

Revenue of approximately HK$157,080,000, HK$138,502,000 and HK$122,277,000 were derived from sales to the largest customer, the second largest customer and the third largest customer of the Group, respectively.

6. 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:

	2011	2010
	HK$'000	*HK$'000*
Revenue		
Sale of goods	**957,322**	631,039
Other income and gains		
Bank interest income	**1,875**	77
Gain on disposal of a subsidiary	**–**	1,369
Foreign exchange differences, net	**12,632**	–
Others	**–**	405
	14,507	1,851
	971,829	632,890

NOTES TO FINANCIAL STATEMENTS

30 June 2011

7. FINANCE COSTS

	2011	2010
	HK$'000	*HK$'000*
Interest on bank loans wholly repayable after five years	**–**	48

8. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

		2011	2010
	Notes	***HK$'000***	*HK$'000*
Cost of inventories sold		**221,572**	145,323
Depreciation*	*15*	**845**	490
Amortisation of an intangible asset*	*17*	**3,915**	3,791
Minimum lease payments under operating leases on land and buildings		**4,428**	1,612
Auditors' remuneration		**1,600**	1,400
Employee benefit expenses* (including directors' remuneration *(Note 9)*):			
Wages and salaries		**38,455**	16,238
Retirement benefit scheme contributions		**5,138**	3,722
Equity-settled share award expenses	*27*	**13,316**	11,269
		56,909	31,229
Loss on disposal of items of property, plant and equipment		**–**	101
Gain on disposal of a subsidiary	*30*	**–**	(1,369)
Fair value changes on derivative financial instruments	*35*	**–**	(17,245)
Derecognition of derivative financial instruments	*35*	**(5,100)**	–
Foreign exchange differences, net		**(12,632)**	725

NOTES TO FINANCIAL STATEMENTS

30 June 2011

8. PROFIT BEFORE TAX (continued)

* *Included in the respective balances are the following amounts which are also included in cost of inventories sold disclosed above:*

		2011	2010
		HK$'000	*HK$'000*
Depreciation		**150**	101
Amortisation of an intangible asset	*17*	**3,915**	3,791
Employee benefit expenses		**12,060**	4,923
		16,125	8,815

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2011	2010
	HK$'000	*HK$'000*
Fees	**702**	–
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	**3,665**	2,335
Retirement benefit scheme contributions	**52**	30
Equity-settled share award expenses *(note 27)*	**3,716**	8,348
	8,135	10,713

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2011	2010
	HK$'000	*HK$'000*
Mr. Yan Kam Tong (appointed on 6 September 2010)	**117**	–
Prof. Dong Yin Mao (appointed on 6 September 2010)	**117**	–
Prof. Yang Rude (appointed on 6 September 2010)	**117**	–
	351	–

NOTES TO FINANCIAL STATEMENTS

30 June 2011

9. DIRECTORS' REMUNERATION (continued)

(b) Executive directors and non-executive director

	Fees *HK$'000*	**Salaries, bonuses, allowances and benefits in kind** *HK$'000*	**Retirement benefit scheme contributions** *HK$'000*	**Equity-settled share award expenses** *(note 27)* *HK$'000*	**Total remuneration** *HK$'000*
30 June 2011					
Executive directors:					
Mr. Tang Siu Kun ("**Mr. Tang**")	**–**	**840**	**12**	**1,380**	**2,232**
Mr. She Yu Yuan ("**Mr. She**")	**–**	**1,577**	**20**	**1,786**	**3,383**
Mr. Luo Yao Wen ("**Mr. Luo**")	**–**	**1,248**	**20**	**550**	**1,818**
Mr. Zhang Kun Mou ("**Mr. Zhang**")	**117**	**–**	**–**	**–**	**117**
Mr. Chen Lei ("**Mr. Chen**")	**117**	**–**	**–**	**–**	**117**
Non-executive director:					
Mr. Sun Yan (appointed on 27 October 2010)	**117**	**–**	**–**	**–**	**117**
	351	**3,665**	**52**	**3,716**	**7,784**

	Fees *HK$'000*	Salaries, bonuses, allowances and benefits in kind *HK$'000*	Retirement benefit scheme contributions *HK$'000*	Equity-settled share award expenses *HK$'000*	Total remuneration *HK$'000*
30 June 2010					
Executive directors:					
Mr. Tang	–	966	12	3,100	4,078
Mr. She	–	763	10	4,012	4,785
Mr. Luo	–	606	8	1,236	1,850
Mr. Zhang	–	–	–	–	–
Mr. Chen	–	–	–	–	–
	–	2,335	30	8,348	10,713

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

NOTES TO FINANCIAL STATEMENTS

30 June 2011

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2010: three) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining two (2010: two), non-director, highest paid employees during the year are set out as follows:

	2011 HK$'000	2010 HK$'000
Salaries, allowances and benefits in kind	**1,551**	3,076
Retirement benefit scheme contributions	**31**	14
Equity-settled share award expenses	**349**	128
	1,931	3,218

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2011	2010
Nil to HK$1,000,000	**1**	–
HK$1,000,001 to HK$1,500,000	**1**	1
HK$2,000,001 to HK$2,500,000	**–**	1
	2	2

During the year, no emoluments were paid by the Group to the directors, or the non-director, highest paid employees as an inducement to join, or upon joining the Group, or as compensation for loss of office (2010: Nil). None of the persons, who were directors, waived or agreed to waive any emoluments during the year.

NOTES TO FINANCIAL STATEMENTS

30 June 2011

11. 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 year.

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 "**Corporate Income Tax Law**") was approved and became effective on 1 January 2008. The 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%.

重慶朗禾化妝品有限公司 was qualified as a 鼓勵類產業企業 and hence is subject to a preferential corporate income tax ("**CIT**") rate of 15%.

	2011	2010
	HK$'000	*HK$'000*
Current – Mainland China		
Charge for the year	**51,268**	25,144
Underprovision/(overprovision) in prior years	**(1,277)**	1,234
Deferred *(note 18)*	**(916)**	(1,448)
Total tax charge for the year	**49,075**	24,930

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 rate is as follows:

	2011	2010
	HK$'000	*HK$'000*
Profit before tax	**209,229**	142,376
Tax at the applicable tax rates	**56,437**	35,353
Lower tax rate for specific provinces or enacted by local authority	**(12,993)**	(9,018)
Adjustment in respect of current tax of previous periods	**(1,277)**	1,234
Income not subject to tax	**(3,627)**	(6,178)
Tax loss not recognised	**6,230**	–
Expenses not deductible for tax	**4,305**	3,539
Tax charge at the Group's effective tax rate	**49,075**	24,930

NOTES TO FINANCIAL STATEMENTS

30 June 2011

12. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company for the year ended 30 June 2011 includes a profit of HK$13,343,000 (2010: Nil) which has been dealt with in the financial statements of the Company *(note 28)*.

13. DIVIDENDS

	2011	2010
	HK$'000	*HK$'000*
Dividends paid during the year:		
Final dividend in respect of the financial year ended 30 June 2010	**29,267**	–
Proposed dividend		
Dividend	**30,000**	–
Special dividend	**–**	30,000

The Directors recommend the payment of dividend of HK$30,000,000 (approximately HK3.6 cents per share) for the year and a bonus issue of shares on the basis of 1 new ordinary share for every 5 existing ordinary shares.

The dividend per share is based on the number of shares in issue as at the end of reporting period. The dividend and the bonus issue of shares are subject to the approval of the Company's shareholders at the forthcoming annual general meeting to be held on 16 December 2011 and the approval for listing of and the permission to deal by the Stock Exchange. These financial statements do not reflect the dividend payable.

The proposed special dividend of HK$30,000,000 for the year ended 30 June 2010 was approved by the Company's shareholders at the Company's annual general meeting on 17 December 2010, and satisfied by way of scrip shares ("**Scrip Dividend**") in lieu of cash payment. The dividend payable were not reflected in the financial statements as at 30 June 2010. On 7 January 2011, 4,910,614 shares of HK$0.1 each were issued and deemed at HK$5.96 per share to satisfy the special dividend.

Further details of the scrip dividend scheme are set out in the Company's announcement dated 20 December 2010.

14. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amounts is based on the profit for the year attributable to equity holders of the Company, and the weighted average number of ordinary shares of 780,527,052 (2010: 604,910,614, restated) in issue during the year, as adjusted to reflect the Scrip Dividend paid for the year.

The weighted average number of ordinary shares used to calculate the basic earnings per share for the year ended 30 June 2011 includes the 600,000,000 ordinary shares as if the shares have been in issue throughout the year ended 30 June 2011, 200,000,000 ordinary shares issued on 24 September 2010 in connection with the Listing, 30,000,000 ordinary shares issued on 27 September 2010 upon the exercise of an over-allotment option, and takes into account the effect of 4,910,614 shares issued by the Company as the settlement of the Scrip Dividend during the year.

NOTES TO FINANCIAL STATEMENTS

30 June 2011

14. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY (continued)

The number of ordinary shares used to calculate the basic earnings per share for the year ended 30 June 2010 was based on the 600,000,000 ordinary shares *(Note 26)*, representing the number of shares of the pro forma issued capital as at 30 June 2010, as if the shares had been in issue throughout the year ended 30 June 2010, and restated to reflect the effect of 4,910,614 shares issued by the Company as settlement of the Scrip Dividend.

No adjustment has been made to the basic earnings per share amounts presented for the year ended 30 June 2011 and 2010 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Building	Plant and machinery	Furniture, fixtures, equipment and motor vehicles	Leasehold improvements	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
30 June 2011						
Cost:						
At 1 July 2010	–	1,196	2,334	–	–	3,530
Acquisition from business combination *(Note 29)*	–	2,766	–	–	–	2,766
Additions	–	1,068	7,031	1,977	532	10,608
Exchange realignment	–	84	232	47	13	376
At 30 June 2011	**–**	**5,114**	**9,597**	**2,024**	**545**	**17,280**
Accumulated depreciation:						
At 1 July 2010	–	709	1,428	–	–	2,137
Depreciation charge for the year	–	245	600	–	–	845
Exchange realignment	–	39	81	–	–	120
At 30 June 2011	**–**	**993**	**2,109**	**–**	**–**	**3,102**
Net book value:						
At 30 June 2011	**–**	**4,121**	**7,488**	**2,024**	**545**	**14,178**

NOTES TO FINANCIAL STATEMENTS

30 June 2011

15. PROPERTY, PLANT AND EQUIPMENT (continued)

Group (continued)

	Building HK$'000	Plant and machinery HK$'000	Furniture, fixtures, equipment and motor vehicles HK$'000	Leasehold improvements HK$'000	Total HK$'000
30 June 2010					
Cost:					
At 1 July 2009	5,356	987	1,861	114	8,318
Additions	–	197	381	–	578
Disposals	(5,362)	–	–	–	(5,362)
Write-off	–	–	–	(114)	(114)
Exchange realignment	6	12	92	–	110
At 30 June 2010	–	1,196	2,334	–	3,530
Accumulated depreciation:					
At 1 July 2009	518	527	1,203	10	2,258
Depreciation charge for the year	130	175	182	3	490
Write-back on disposals	(649)	–	–	–	(649)
Write-off	–	–	–	(13)	(13)
Exchange realignment	1	7	43	–	51
At 30 June 2010	–	709	1,428	–	2,137
Net book value:					
At 30 June 2010	–	487	906	–	1,393

The Group's building was located in Mainland China and was held under a medium term lease. Such property was provided as a rent-free accommodation to an executive director of the Company. During the year ended 30 June 2010, the property was disposed of to a director of the Company and his spouse for 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.

NOTES TO FINANCIAL STATEMENTS

30 June 2011

16. GOODWILL

Group

	HK$'000
At 1 July 2009, 30 June 2010 and 30 June 2011	
Cost	15,772
Accumulated impairment	–
Net carrying amount	15,772

Impairment testing of goodwill

Goodwill acquired through business combinations 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 consider that the goodwill of HK$1,223,000 arising 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 assumption for the cash flow projections is 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 11.70% for the year ended 30 June 2011 (2010: 6.13%), 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 amounts of the cash-generating units to exceed the recoverable amounts. 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.

NOTES TO FINANCIAL STATEMENTS

30 June 2011

17. INTANGIBLE ASSET

Group

	Trade name
	HK$'000
Cost:	
At 1 July 2009	34,032
Exchange realignment	357
At 30 June 2010 and 1 July 2011	34,389
Exchange realignment	1,685
At 30 June 2011	36,074
Accumulated amortisation:	
At 1 July 2009	3,782
Provided during the year	3,791
Exchange realignment	70
At 30 June 2010 and 1 July 2010	7,643
Provided during the year	3,915
Exchange realignment	467
At 30 June 2011	12,025
Net carrying amount:	
At 30 June 2011	24,049
At 30 June 2010	26,746

NOTES TO FINANCIAL STATEMENTS

30 June 2011

18. DEFERRED TAX

The following are the major deferred tax liabilities recognised and their movements:

Group

	Fair value adjustments arising from acquisition of subsidiaries *HK$'000*
At 1 July 2009	7,563
Deferred tax credited to the consolidated income statement *(note 11)*	(947)
Exchange realignment	71
At 30 June 2010 and 1 July 2010	6,687
Deferred tax credited to the consolidated income statement *(note 11)*	(979)
Exchange realignment	304
At 30 June 2011	6,012

The following are the major deferred tax asset recognised and their movements:

	Deductible temporary difference *HK$'000*
At 1 July 2009	845
Deferred tax credited to the consolidated income statement *(note 11)*	501
At 30 June 2010 and 1 July 2010	1,346
Deferred tax debited to the consolidated income statement *(note 11)*	(63)
At 30 June 2011	1,283

NOTES TO FINANCIAL STATEMENTS

30 June 2011

18. DEFERRED TAX (continued)

The Group has tax loss arising in Mainland China of HK$24,900,000 (2010: Nil) that will expired in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as the directors considered it is not probable that taxable profits will be available against which the tax losses can be utilised.

During the year ended 30 June 2011, 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 unremitted earnings associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$392,005,000 (2010: HK$220,056,000) at 30 June 2011.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

19. INVESTMENTS IN SUBSIDIARIES

	Company	
	2011	2010
	HK$'000	*HK$'000*
Unlisted investment, at cost	**116,540**	–

The amounts due from subsidiaries included in the Company's current assets of HK$180,670,000 (2010: Nil), are unsecured, interest-free and are repayable on demand.

Particulars of the principal subsidiaries of the Company are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued/paid-up share/registered capital	Percentage of equity attributable to the Company		Principal activities
			2011	2010	
Directly held					
Magic Holdings	The British Virgin Islands (the "**BVI**")	US$22,883	100	100	Investment holding
Indirectly held					
廣東群禾藥業有限公司 ("**Guangdong Qunhe**")**	PRC/Mainland China	RMB10,000,000	100	100	Trading of facial masks and other skincare products
重慶朗禾化妝品有限公司 ("**朗禾**")**	PRC/Mainland China	RMB5,000,000	100	N/A	Trading of facial masks and other skincare products

NOTES TO FINANCIAL STATEMENTS

30 June 2011

19. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/paid-up share/registered capital	Percentage of equity attributable to the Company 2011	2010	Principal activities
Indirectly held (continued)					
廣州美即化妝品有限公司 ("**Guangzhou Magic**")** *(Note 1)*	PRC/Mainland China	RMB40,000,000	100	100	Manufacture and sale of facial masks and other skincare products
廣州晟灃源資產管理有限公司("**晟灃源**")**	PRC/Mainland	RMB500,000	100	N/A	Investment holding
廣州市中合美容化妝品有限公司 ("**中合美**")** *(Note 2)*	PRC/Mainland China	RMB500,000	100	N/A	Manufacture and sale of facial masks and other skincare products
北京東麗盛化妝品有限公司 ("**Donglisheng**")**	PRC/Mainland China	RMB5,000,000	70	70	Sale of skincare products
廣州美即生物科技有限公司 ("**MG Bio-tech**")*	PRC/Mainland China	HK$168,000,000	100	100	Investment holding
Magic-Hanbul Holdings Limited ("**MG BVI**")	The BVI	US$2,950,000	51	51	Investment holding
Magic-Hanbul International Limited ("**MG HK**")	Hong Kong	HK$23,000,000	51	N/A	Investment holding
廣州美即韓佛化妝品有限公司 ("**GZ MG PRC**")*	PRC/Mainland China	RMB20,000,000	51	N/A	Sale of skincare products and not yet commenced business

* *Registered as a wholly-foreign-owned enterprise under PRC law*

** *Registered as domestic enterprises under the laws of the PRC*

NOTES TO FINANCIAL STATEMENTS

30 June 2011

19. INVESTMENTS IN SUBSIDIARIES (continued)

Notes:

(1) During the year, the registered capital of Guangzhou Magic was increased from HK$40,000,000 (approximately RMB39,560,000) to RMB40,000,000 by the injection of an additional capital of RMB440,000.

(2) On 30 May 2011, the Group acquired 100% equity interest of 中合美 from five individuals ("Five Individuals"), who are then independent third parties of the Group and each holding 20% equity interest in 中合美. Further details of the acquisition of 中合美 were set out in note 29.

The statutory financial statements of the subsidiaries listed above are not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.

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

NOTES TO FINANCIAL STATEMENTS

30 June 2011

20. INVENTORIES

	Group	
	2011	2010
	HK$'000	*HK$'000*
Raw materials	**7,392**	3,455
Finished goods	**7,453**	5,086
	14,845	8,541

21. 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 receivable balances at 30 June 2011 were amounts of HK$180,704,000 (2010: HK$110,113,000), which represented amounts granted under such terms. The Group generally offers credit terms 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 receivables mainly related to a few recognised and creditworthy customers.

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2011	2010
	HK$'000	*HK$'000*
Within 180 days	**181,248**	111,411
181 to 365 days	**–**	177
	181,248	111,588

NOTES TO FINANCIAL STATEMENTS

30 June 2011

21. TRADE RECEIVABLES (continued)

An analysis of trade receivables that were not considered to be impaired is as follows:

	Group	
	2011	2010
	HK$'000	*HK$'000*
Neither past due nor impaired	**181,248**	111,412
1 to 180 days past due	**–**	176
	181,248	111,588

The Group's trade receivables which are neither past due nor impaired trade receivables mainly relate to 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.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Prepayments*	**1,635**	2,524	**–**	2,496
Prepaid sales and promotional expenses	**93,458**	78,424	**–**	–
Deposits and other receivables**	**44,226**	24,119	**–**	4,701
	139,319	105,067	**–**	7,197
Less: Non-current portion	**(41,723)**	(13,698)	**–**	–
	97,596	91,369	**–**	7,197

NOTES TO FINANCIAL STATEMENTS

30 June 2011

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

At 30 June 2011, 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.

* *Included in the prepayments was an amount of approximately HK$1,619,000 (2010: Nil), being a deposit paid to Hanbul Cosmetic Company Limited ("Hanbul") for purchases of inventories.*

** *Included in the deposits and other receivables were amounts of RMB22,748,000 (approximately HK$28,025,000) (2010: Nil) and RMB11,950,000 (approximately HK$14,370,000) (2010: HK$13,698,000), being the deposit paid for the acquisition of a new office building in Guangzhou and deposit paid for purchases of a land use right in Guangzhou, respectively.*

23. CASH AND CASH EQUIVALENTS

	Group		**Company**	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**842,168**	49,475	**425,387**	–
Non-pledged time deposit with original maturity of over three months when acquired	**120,247**	–	**120,247**	–
Non-pledged time deposit with original maturity of less than three months when acquired	**12,989**	–	**–**	–
Cash and cash equivalents	**975,404**	49,475	**545,634**	–

At 30 June 2011, the Group's and the Company's cash and bank balances denominated in Renminbi ("**RMB**") amounted to approximately HK$901,913,000 (2010: HK$14,841,000) and HK$489,027,000 (2010: Nil), 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 year 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.

NOTES TO FINANCIAL STATEMENTS

30 June 2011

24. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period is as follows:

	Group	
	2011	2010
	HK$'000	*HK$'000*
Within 90 days	**45,401**	28,870
Over 90 days	**–**	588
	45,401	29,458

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

25. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Other payables	**22,280**	9,515	**179**	7,197
Accruals and other liabilities	**12,031**	14,229	**–**	–
	34,311	23,744	**179**	7,197

Other payables are non-interest bearing and have an average term of two to three months.

NOTES TO FINANCIAL STATEMENTS

30 June 2011

26. SHARE CAPITAL

Shares

The following changes in the Company's authorised and issued share capital took place during the period from 9 February 2010 (date of incorporation) to 30 June 2011.

	Notes	**Number of ordinary shares**	**Nominal value of ordinary shares** *HK$'000*
Authorised:			
Upon incorporation (1,000,000 shares of HK$0.1 each) and as at 30 June 2010	*(a)*	1,000,000	100
Increase in authorised capital on 5 September 2010	*(b)*	1,999,000,000	199,900
At 30 June 2011		2,000,000,000	200,000
Issued:			
Upon incorporation (one share of HK$0.1 allotted as nil-paid) and as at 30 June 2010	*(c)*	1	–
Allotment and issuance of 2,288,299 nil-paid shares on 5 September 2010	*(d)*	2,288,299	–
On acquisition of Magic Holdings on 6 September 2010			
– allotment and issuance of 2,288,300 shares credited as fully-paid	*(e)(i)*	2,288,300	229
– 2,288,300 nil-paid shares credited as fully-paid *(note (d))*	*(e)(ii)*	–	229
Capitalisation issue credited as fully-paid conditional on the share premium account of the Company, being credited as a result of the issuance of new shares to the public	*(f)*	595,423,400	59,542
Pro forma issued capital as at 30 June 2010		600,000,000	60,000
Issuance of new shares on 24 September 2010	*(g)*	200,000,000	20,000
Issuance of new shares on 27 September 2010 upon exercise of an over-allotment option	*(h)*	30,000,000	3,000
Issuance of new shares pursuant to scrip dividend scheme	*13*	4,910,614	491
At 30 June 2011		834,910,614	83,491

NOTES TO FINANCIAL STATEMENTS

30 June 2011

26. SHARE CAPITAL (continued)

Shares (continued)

Notes:

(a) Pursuant to an ordinary resolution passed on 9 February 2010, the authorised share capital of the Company was divided into 1,000,000 shares of HK$0.1 each.

(b) Pursuant to a special resolution passed on 5 September 2010, the authorised share capital of the Company was increased from HK$100,000 to HK$200,000,000 by the creation of 1,999,000,000 additional new shares of HK$0.1 each.

(c) 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.

(d) 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 (as described in (c) above) was transferred by Mr. Tang to MG Company Limited ("**MGL**"), a company incorporated in the BVI and wholly-owned by Mr. Tang. The shares were subsequently credited as fully-paid as described in (e)(ii) below.

(e) (i) On 6 September 2010, a further 2,288,300 nil-paid shares were allotted and issued, credited as fully-paid, to the then shareholders of Magic Holdings.

(ii) 2,288,300 nil-paid shares held by the then shareholders of Magic Holdings were credited as fully-paid at par *(note (d))*.

(f) 595,423,400 new shares of HK$0.1 each were allotted and issued and credited as fully-paid at par by the Company, by way of capitalisation of the sum of approximately HK$59,542,000 from the share premium account, to the then existing shareholders of the Company, whose names appeared on the register of the Company on 6 September 2010, in proportion to their respective shareholdings. Such allotment and capitalisation were conditional on the share premium account being credited as a result of the issue of new shares to the public in connection with the Company's initial public offering as detailed in (g) below.

(g) In connection with the Company's initial public offering, 200,000,000 shares of HK$0.1 each were issued at a price of HK$3.3 per share for a total cash consideration, before expenses, of approximately HK$660,000,000. Dealings in these shares on the Stock Exchange commenced on 24 September 2010.

(h) In connection with the Company's initial public offering, an over-allotment option was granted to BOCI Asia Limited, the sole global coordinator (the "**Sole Global Coordinator**") whereby the Sole Global Coordinator has the right to request the Company to issue and allot up to an aggregate of 30,000,000 additional shares of HK$0.1 each to subscribers under the initial public offering. On 27 September 2010, the Sole Global Coordinator exercised the over-allotment option and accordingly, 30,000,000 shares of HK$0.1 each were issued by the Company at a price of HK$3.3 per share for a total cash consideration, before expenses, of approximately HK$99,000,000. Dealings of these shares on the Stock Exchange commenced on 28 September 2010.

Share awards

Details of the share award plan are included in note 27 to the consolidated financial statements.

NOTES TO FINANCIAL STATEMENTS

30 June 2011

27. SHARE AWARD PLAN AND SHARE OPTION SCHEME

Share award plan

During the year ended 30 June 2010, the then shareholders and the directors of Magic Holdings have approved the adoption of the share award plan (the "**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 and directors, any suppliers and customers 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 will 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 are the trustees of the Share Award Plan (the "**Trustees**"). 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 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.

NOTES TO FINANCIAL STATEMENTS

30 June 2011

27. SHARE AWARD PLAN AND SHARE OPTION SCHEME (continued)

Share award plan (continued)

Pursuant to share award letters issued on 30 October 2009 to those eligible participants, an aggregate of 1,144 shares ("**2009 Awarded Shares**") of Magic Holdings of US$1 each 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 an employee of the Group. Among the share awards granted on 30 October 2009, 458 share awards were 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 on 6 September 2010 immediately before the Pre-listing Share Swap according to the Plan Rules. The remaining 686 share awards were granted to certain 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)

NOTES TO FINANCIAL STATEMENTS

30 June 2011

27. SHARE AWARD PLAN AND SHARE OPTION SCHEME (continued)

Share award plan (continued)

Maximum number of awarded shares to be vested	Period
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 Plan Rules, 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 Trustees have 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.

During the year, on 19 August 2010 prior to the Pre-listing Share Swap, Mr. Tang, Mr. Luo, Mr. She, three of the Management Shareholders (the "**Three Management Shareholders**") and four members of senior management and employees (the "**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 ("**Non-acceptance**"), 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, the spouse of Mr. Luo, Ms. Wu Xiaoqing, the spouse of Mr. She, Ms. She Minghong, a sister of Mr. She and Mr. Zhang Quan, a brother of Mr. Zhang Peter Y., a director of HHBP, the then ultimate holding company of the Company.

According to the Plan Rules, an aggregate numbers of 1,144 shares of Magic Holdings were issued to the Share Award Trustees immediately prior to the Pre-listing Share Swap on 6 September 2010, of which 46 shares granted to Mr. Ho Cheung Ping Dawnie ("**Mr. Ho**"), one of the Management Shareholders was vested on the same date pursuant to the Plan Rules.

NOTES TO FINANCIAL STATEMENTS

30 June 2011

27. SHARE AWARD PLAN AND SHARE OPTION SCHEME (continued)

Share award plan (continued)

Pursuant to the announcement of the Company dated 28 October 2010, the directors approved to amend the vesting period of the awarded shares as follows:

Maximum number of awarded shares to be vested	Vesting period of the 2009 Awards (except that for Mr. Ho) before the amendment	Vesting period of the 2009 Awards (except that for Mr. Ho) after the amendment
Up to 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)	Period commencing from the first business day immediately after 30 June 2011 (but excluding 30 June 2011)
Up to 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)	Period commencing from the first business day immediately after 30 June 2012 (but excluding 30 June 2012)
Up to 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)	Period commencing from the first business day immediately after 30 June 2013 (but excluding 30 June 2013)

NOTES TO FINANCIAL STATEMENTS

30 June 2011

27. SHARE AWARD PLAN AND SHARE OPTION SCHEME (continued)

Share award plan (continued)

Maximum number of awarded shares to be vested	Vesting period of the 2009 Awards (except that for Mr. Ho) before the amendment	Vesting period of the 2009 Awards (except that for Mr. Ho) after the amendment
Up to 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)	Period commencing from the first business day immediately after 30 June 2014 (but excluding 30 June 2014)
Up to 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)	Period commencing from the first business day immediately after 30 June 2015 (but excluding 30 June 2015)

On 15 November 2010, the Company had granted an aggregate number of 12,847,967 shares (the "**2010 Awards**") of the Company to the Three Management Shareholders and the Other Grantees at nil consideration. Amongst the 2010 Awards, 10,802,780 shares and 2,045,187 shares were granted to the Three Management Shareholders and the Other Grantees, respectively. The 2010 Awards are evenly divided into five tranches and would be vested in the same manner of the 2009 Awards (except that for Mr. Ho) after the amendment.

NOTES TO FINANCIAL STATEMENTS

30 June 2011

27. SHARE AWARD PLAN AND SHARE OPTION SCHEME (continued)

Share award plan (continued)

The fair values of the 2009 Awards granted to the Management Shareholders and employees were HK$9,280,000 and HK$12,434,000, respectively, of which the Group recognised aggregate share award expenses of HK$11,269,000 in the consolidated income statement during the year ended 30 June 2010. The fair values of the 2009 Awards 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 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 fair values of the 2010 Awards granted to the Management Shareholders and Other grantees were HK$61,360,000 and HK$11,617,000, respectively. The fair value of the 2010 Awards granted during the year was estimated as at the date of grant based on the market value of the shares of the Company at the date of grant.

During the year, net share award expenses of HK$13,316,000 were charged to the consolidated income statement, representing (i) expenses of HK$2,624,000 and HK$19,340,000 for the 2009 Awards and the 2010 Awards, respectively, of which HK$4,480,000, HK$5,798,000 and HK$1,786,000 were included in the directors's remuneration to Mr. Tang, Mr. She and Mr. Luo, for the year ended 30 June 2011, receptively *(note 9)* netted off against (ii) the write-back of overprovision of HK$8,610,000 upon the Non-acceptance of the 2009 Awards granted to the Three Management Shareholders and the Other Grantees, and a write-back of HK$38,000 on forfeiture of the 2009 Awards upon resignation of certain employee of the Company.

Included in the aforesaid reversal of the overprovision of HK$8,610,000 were amounts of HK$3,100,000, HK$4,012,000 and HK$1,236,000 included in the directors' remuneration to Mr. Tang, Mr. She and Mr. Luo, for the year ended 30 June 2011, respectively *(note 9)*.

The directors of the Company believe that the estimated fair values of the 2009 Awards and 2010 Awards resulting from the above valuation technique are reasonable and the fair values are appropriate at the end of the reporting period.

NOTES TO FINANCIAL STATEMENTS

30 June 2011

27. SHARE AWARD PLAN AND SHARE OPTION SCHEME (continued)

Share option scheme

The Company has a share option scheme ("**Scheme**") which was adopted pursuant to a resolution in writing passed by all the shareholders on 6 September 2010, for the purpose of providing incentives or rewards to selected eligible participants for their contributions to the Group. The Scheme became effective on 24 September 2010 and, unless otherwise cancelled or amended, will remain in force for 10 years from such date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to independent non-executive directors' approval in advance. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than five years from date of the offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company's shares on the Stock Exchange on the date of the offer of the share options; (ii) the average closing price of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares.

No share options have been granted under the Scheme as at 30 June 2011 or up to the date of approval of these financial statements.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

NOTES TO FINANCIAL STATEMENTS

30 June 2011

28. RESERVES

(a) Group

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

(b) Company

	Share premium account HK$'000	Capital reserve* HK$'000	Retained profit HK$'000	Total HK$'000
Upon date of incorporation and at 1 July 2010	–	–	–	–
Issuance of shares upon the corporate reorganisation *(Notes 26(d) and 26(e)(ii))*	(229)	–	–	(229)
Issuance of shares credited as fully paid *(Note 26(e)(i))*	(229)	–	–	(229)
Reorganisation and share swap arrangement	–	116,361	–	116,361
Issuance of shares by way of capitalisation of the share premium accounts *(Note 26(f))*	(59,542)	–	–	(59,542)
Issuance of new shares on 24 September 2010 *(Note 26(g))*	640,000	–	–	640,000
Issuance of new shares on 27 September 2010 upon exercise of an over-allotment option *(Note 26(h))*	96,000	–	–	96,000
Share issue expenses, net	(46,039)	–	–	(46,039)
2010 special dividend *(note 13)*	(29,267)	–	–	(29,267)
Issuance of shares to settle 2010 special dividend *(note 13)*	28,776	–	–	28,776
Total profit and comprehensive income for the year	–	–	13,343	13,343
At 30 June 2011	**629,470**	**116,361**	**13,343**	**759,174**

* *The capital reserve of the Company represents the excess of the then consolidated net assets of the subsidiaries acquired by the Company pursuant to the Reorganisation over the nominal value of the share capital of the Company issued in exchange thereof. Under the Companies Law of the Cayman Islands, the capital reserve may be distributed to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.*

NOTES TO FINANCIAL STATEMENTS

30 June 2011

29. BUSINESS COMBINATION

On 30 May 2011, the Group acquired a 100% interest in 中合美 from independent third parties of the Company. 中合美 is engaged in the manufacture and sale of facial masks and other skincare products. The acquisition was made as part of the Group's strategy to enhance the production capacity of the Group. The purchase consideration of RMB2,400,000 (approximately HK$2,886,000) for the acquisition was settled in the form of cash on the acquisition date.

The fair values of the identifiable assets and liabilities of 中合美 as at the date of acquisition were as follows:

	Note	**Fair value recognised on acquisition** *HK$'000*
Property, plant and equipment	*15*	2,766
Prepayments and other receivables		115
Cash and bank balances		5
Total identifiable net assets at fair value		2,886
Satisfied by cash		2,886

An analysis of the cash flows in respect of the acquisition of 中合美 is as follows:

	HK$'000
Cash consideration	(2,886)
Cash and bank balances acquired	5
Net outflow of cash and cash equivalents included in cash flows from investing activities	(2,881)

Since its acquisition, 中合美 has been only engaged in the manufacture and sale of facial masks and other skincare products to group companies, and has generated revenue of HK$15,148,000 and profit of HK$2,863,000, which were fully eliminated on consolidation, for year ended 30 June 2011.

Had the combination taken place at the beginning of the year, the revenue and the profit of the Group for the year would have been HK$957,382,000 and HK$160,187,000, respectively.

NOTES TO FINANCIAL STATEMENTS

30 June 2011

30. DISPOSAL OF A SUBSIDIARY

During the year ended 30 June 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 Zhenghan Trading Company Limited ("**Hainan Yangpu**") for a cash consideration of RMB1,000,000 (approximately HK$1,136,000).

	2010
	HK$'000
Net assets disposed of:	
Other receivable	1,136
Release of exchange fluctuation reserve upon disposal	(1,369)
	(233)
Gain on disposal of a subsidiary	1,369
	1,136
Satisfied by cash	1,136

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of Hainan Yangpu is as follows:

	2010
	HK$'000
Cash consideration and inflow of cash and cash equivalents	1,136

NOTES TO FINANCIAL STATEMENTS

30 June 2011

31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions:

(i) During the year, the special dividend of HK$30,000,000 was approved by the Company's shareholders at the Company's annual general meeting on 17 December 2010, and satisfied by way of scrip shares in lieu of cash payment. On 7 January 2011, 4,910,616 shares of HK$0.1 each were issued deemed at HK$5.96 per share to satisfy the special dividend. Further details are set out in notes 13 and 26 to the financial statements.

(ii) During the year ended 30 June 2010, a building was 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 had also been assumed by Mr. She. Pursuant to the disposal agreement entered into amongst Mr. She, MGL and the Group, the net consideration of HK$2,448,000 was settled via the current account with MGL and included in amounts due to related parties as at 30 June 2010.

32. 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 eight years with an option for renewal after that date, at which time all terms will be renegotiated.

As at 30 June 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2011	2010
	HK$'000	*HK$'000*
Within one year	**2,105**	313
In the second to fifth years, inclusive	**1,439**	15
After five years	**1,084**	–
	4,628	328

NOTES TO FINANCIAL STATEMENTS

30 June 2011

33. COMMITMENTS

In addition to the operating lease commitments disclosed in note 32 above, the Group had the following capital commitments at the end of the reporting period:

	Group	
	2011	2010
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Leasehold land and buildings	**27,296**	–
Acquisition of trademarks*	**1,560**	–
Capital contribution to MG BVI	**–**	11,692
	28,856	11,692

* *Pursuant to the trademarks assignment agreement entered into by the Group and Hanbul and another trademarks assignment agreement entered into by the Group and It's Skin Co., Ltd., the subsidiary of Hanbul, both dated 28 April 2011, the trademarks of "Hanbul" and "It's Skin" registered in the PRC, Taiwan and Hong Kong will be assigned to the Group at an aggregate consideration of US$200,000 (approximately HK$1,560,000) which will be payable upon the completion of the assignments. As at the end of the reporting period and up to the date of the approval of the financial statements, the trademarks assignments have not been completed.*

34. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in these consolidated financial statements, the Group had the following transactions with related parties:

(a) (i) During the year ended 30 June 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 account with MGL. The transaction is non-recurring.

(ii) The Group had engaged 中合美, of which the spouse of Mr. She and the daughter of Mr. Luo are two of the equity holders and directors, for the production of the Group's products. The Company had paid service fee of HK$205,000 to 中合美 for the period from 1 July 2009 to 31 March 2010. 中合美 ceased to be related after the spouse of Mr. She and the daughter of Mr. Luo had resigned as the directors of 中合美 and transferred their interests in 中合美 to independent third parties in March 2010.

NOTES TO FINANCIAL STATEMENTS

30 June 2011

34. RELATED PARTY TRANSACTIONS (continued)

(b) An analysis of the balances with related parties of the Group is as follows:

Due from related parties:

	Group	
	2011	2010
	HK$'000	*HK$'000*
Fellow subsidiaries	–	123,258
Ultimate holding company	–	4,073
	–	127,331

Due to related parties:

	Group	
	2011	2010
	HK$'000	*HK$'000*
Fellow subsidiaries	–	39
Shareholders	–	11,780
Immediate holding company	–	20,180
	–	31,999

The outstanding balances with related parties were interest-free, unsecured and had been fully settled prior to the listing of shares of the Company on the Stock Exchange.

(c) **Compensation of key management personnel of the Group**

The executive directors are the key management personnel of the Group. Details of their remuneration are disclosed in note 9 to the consolidated financial statements.

NOTES TO FINANCIAL STATEMENTS

30 June 2011

34. RELATED PARTY TRANSACTIONS (continued)

(d) During the year ended 30 June 2011, the Group has 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) During the year, Mr. Tang, Mr. She, Mr. Luo and Mr. Ho agreed to undertake amounts of HK$3,390,000, HK$4,402,000, HK$1,353,000 and HK$1,016,000 respectively, out of the total share issue expenses of HK$56,200,000 incurred by the Company in relation to the Listing. Mr. Tang, Mr. She, Mr. Luo and Mr. Ho settled the total amount of HK$10,161,000 during the year.

(f) Pursuant to an undertaking dated 23 September 2011 entered by Mr. Tang, Mr. She, Mr. Luo and Mr. Ho in favour of the Group, they provided indemnities at nil consideration in respect of any tax charge against the Group in excess of the amount already provided as of 30 June 2011 in relation to an intra-group restructuring undergone by certain subsidiaries of the Group during the year.

35. DERIVATIVE FINANCIAL INSTRUMENTS

During the year ended 30 June 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 the "**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**"), before deducting the respective share issue expenses of HK$765,000. The Subscribers are entitled to subscription price adjustment (the "**Subscription Price Adjustment**") if (i) the amount of audited consolidated net profit of the Group for the year ended 30 June 2010; or (ii) the forecast profit of the Group for the year ended 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 shares upon listing.

NOTES TO FINANCIAL STATEMENTS

30 June 2011

35. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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 21 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 21 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 ceases 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 pro rata 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 Listing. The condition (v) would survive after the Listing if the Listing occurs before the release of the consolidated 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 is 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 is 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 changes in fair value are recognised in the consolidated income statement.

The fair values 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.

NOTES TO FINANCIAL STATEMENTS

30 June 2011

35. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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 arising from the issue of the Subscription Shares by the same amount. The fair value changes in the Derivatives of HK$17,245,000 have been included in the consolidated income statement for the year ended 30 June 2010.

During the year 30 June 2011, since all the conditions for these price adjustments and put option were fulfilled, the derivative financial instruments of HK$5,100,000 were derecognised and credited to the consolidated income statement for the year end 30 June 2011.

36. 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 any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

As at 30 June 2010, the Group held the following financial instruments measured at fair value:

Liabilities measured at fair value

As at 30 June 2010:

	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Derivative financial instruments	–	–	5,100	5,100

NOTES TO FINANCIAL STATEMENTS

30 June 2011

36. FAIR VALUE HIERARCHY (continued)

The movements in fair value measurements in Level 3 during the years ended 30 June 2010 and 2011 are as follows:

	HK$'000
Derivative financial instruments:	
At 1 July 2009	–
At the date of initial recognition	22,345
Fair value gains recognised in the consolidated income statement	(17,245)
At 30 June 2010 and 1 July 2010	5,100
Gain on derecognition of derivative recognised in the consolidated income statement	(5,100)
At 30 June 2011	–

37. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Group

Financial assets – Loans and receivables

	2011	2010
	HK$'000	*HK$'000*
Trade receivables	**181,248**	111,588
Amounts due from related parties	**–**	127,331
Financial assets included in prepayments, deposits and other receivables *(note 22)*	**1,831**	10,421
Cash and cash equivalents	**975,404**	49,475
	1,158,483	298,815

NOTES TO FINANCIAL STATEMENTS

30 June 2011

37. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Group (continued)

Financial liabilities at amortised cost

	2011	2010
	HK$'000	*HK$'000*
Trade payables	**45,401**	29,458
Financial liabilities included in other payables and accruals	**8,879**	9,515
Amounts due to related parties	**–**	31,999
	54,280	70,972

Derivative financial liabilities at fair value through profit or loss

	2011	2010
	HK$'000	*HK$'000*
Derivative financial instruments	**–**	5,100

Company

Financial assets – Loans and receivables

	2011	2010
	HK$'000	*HK$'000*
Amount due from subsidiaries	**180,670**	–
Other receivables	**–**	4,701
Cash and bank balances	**545,634**	–
	726,304	4,701

Financial liabilities at amortised cost

	2011	2010
	HK$'000	*HK$'000*
Other payables	**179**	7,197

NOTES TO FINANCIAL STATEMENTS

30 June 2011

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise a bank loan 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, other receivables, trade payables and other 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:

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's non-pledged time deposits with floating interest rate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rate, with all other variables held constant, of the Group's net profit through the impact on floating rate time deposits.

	Group		**Company**
	Increase/ (decrease) in percentage points	**Increase/ (decrease) in net profit**	**Increase/ (decrease) in net profit**
		HK$'000	*HK$'000*
2011			
RMB	**1%**	**7,987**	**4,891**
RMB	**(1%)**	**(7,987)**	**(4,891)**
2010			
RMB	1%	122	–
RMB	(1%)	(122)	–

NOTES TO FINANCIAL STATEMENTS

30 June 2011

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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. However, certain monetary assets and liabilities (mainly non-pledged time deposits) are denominated in RMB and recorded under the entity which the functional currency is in HK$.

The Group currently does not have a foreign currency hedging policy. However, management monitors the foreign exchange exposures and will consider hedging the significant foreign currency exposures should the need arise.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the Hong Kong dollars and RMB exchange rate, with all other variables held constant, of the Group's net profit.

	Group		**Company**
	Increase/ (decrease) in percentage points	**Increase/ (decrease) in net profit** *HK$'000*	**Increase/ (decrease) in net profit** *HK$'000*
2011			
If Hong Kong dollars weakens against RMB	**5%**	**24,453**	**24,451**
If Hong Kong dollars strengthens against RMB	**(5%)**	**(24,453)**	**24,451**
2010			
If Hong Kong dollars weakens against RMB	5%	–	–
If Hong Kong dollars strengthens against RMB	(5%)	–	–

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, amounts 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 note 21 to the consolidated financial statements.

NOTES TO FINANCIAL STATEMENTS

30 June 2011

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

		2011		
	On demand	**Less than 1 year**	**Over 1 year**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Trade payables	**–**	**45,401**	**–**	**45,401**
Financial liabilities included in other payables and accruals	**–**	**8,879**	**–**	**8,879**
	–	**54,280**	**–**	**54,280**

		2010		
	On demand	Less than 1 year	Over 1 year	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	–	29,458	–	29,458
Financial liabilities included in other payables and accruals	–	9,515	–	9,515
Derivative financial instruments	–	5,100	–	5,100
Amount due to related parties	31,999	–	–	31,999
	31,999	44,073	–	76,072

NOTES TO FINANCIAL STATEMENTS

30 June 2011

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Company

	2011			
	On demand	**Less than 1 year**	**Over 1 year**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Other payables	**–**	**179**	**–**	**179**

	2010			
	On demand	Less than 1 year	Over 1 year	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Other payables	–	7,197	–	7,197

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 years ended 30 June 2010 and 2011.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 September 2011.

SUMMARY FINANCIAL INFORMATION

The following is a summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years prepared on the basis set out in the notes below.

RESULTS

	Year ended 30 June				
	2011	2010	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**957,322**	631,039	374,593	252,814	130,913
Profit before tax	**209,229**	142,376	82,311	57,878	35,602
Income tax expense	**49,075**	(24,930)	(16,083)	(23,790)	(13,999)
Profit for the year	**160,154**	117,446	66,228	34,088	21,603
Attributable to:					
Equity holders of the Company	**160,523**	118,583	67,618	24,617	14,182
Non-controlling interests	**(369)**	(1,137)	(1,390)	9,471	7,421
	160,154	117,446	66,228	34,088	21,603

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 30 June				
	2011	2010	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**1,366,975**	447,259	266,916	235,480	117,376
Total liabilities	**(108,943)**	(108,563)	(97,539)	(73,104)	(70,276)
Non-controlling interests	**(16,328)**	(5,188)	(6,268)	(29,706)	(10,923)
	1,241,704	333,508	163,109	132,670	36,177

Notes:

(i) The summary of the consolidated results of the Group for each of the three years ended 30 June 2007, 2008 and 2009 and of the assets, liabilities and non-controlling interests as of 30 June 2007, 2008 and 2009 have been extracted from the Company's listing prospectus dated 10 September 2010. Such summary was prepared as if the current structure of the Group had been in existence throughout these financial years.

(ii) The consolidated results of the Group for each of the two years ended 30 June 2010 and 2011 and the consolidated assets and liabilities and non-controlling interests of the Group as at 30 June 2010 and 2011 are those set out on pages 43 to 44 of this annual report. Such summary was prepared as if the current structure of the Group had been in existence throughout these financial years..

The summary above does not form part of the audited financial statements.