

# 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



Interim Report 2011/2012

Let everyone achieve beauty through the process of relaxation,  
freedom, and happiness. **Enjoy the Magic moment!**



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## FINANCIAL HIGHLIGHTS

- Revenue was approximately HK\$627.9 million, representing an increase of approximately 63.1% from approximately HK\$384.9 million for the corresponding period last year
- Gross profit was approximately HK\$480.9 million, representing an increase of approximately 62.0% from approximately HK\$296.9 million for the corresponding period last year
- Without regard to the non-operating income gain on derecognition of derivative financial instruments, and the non-operating expenses namely share-based payments expenses and equity-settled share award expenses under administrative expenses, the operating profit after tax increased by approximately 67.0% from approximately HK\$59.7 million for the corresponding period last year to approximately HK\$99.7 million
- Net profit was approximately HK\$80.7 million, representing an increase of approximately 33.6% from approximately HK\$60.4 million for the corresponding period last year

## 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

### NOMINATION COMMITTEE

Mr. Tang Siu Kun Stephen  
*(Chairman of nomination committee)*  
Professor Yang Rude  
Professor Dong Yin Mao  
Mr. Yan Kam Tong  
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

Cricket Square, Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

### HEADQUARTERS IN THE PRC

Room 1501-1504  
Tianyi Plaza  
644 Tongfu East Road  
Guangzhou, Guangdong Province  
China

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 802, Sino Plaza,  
255-257 Gloucester Road,  
Causeway Bay, Hong Kong  
China

### CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited  
Butterfield House  
68 Fort Street, P.O. Box 609  
Grand Cayman KY1-1107  
Cayman Islands

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited  
26/F, Tesbury Centre  
28 Queen's Road East,  
Wanchai, Hong Kong  
China

## **CORPORATE INFORMATION** *(continued)*

### **AUDITORS**

Ernst & Young  
*Certified Public Accountants*  
22/F, CITIC Tower  
1 Tim Mei Avenue, Central  
Hong Kong  
China

### **LEGAL ADVISER AS TO HONG KONG LAWS**

Chiu & Partners  
40th Floor, Jardine House  
1 Connaught Place, Central  
Hong Kong  
China

### **LEGAL ADVISER AS TO PRC LAWS**

Jiayuan Law Firm  
F407-408 Ocean Plaza,  
158 Fuxing Men Nei Ave,  
Xicheng District Beijing 100031,  
China

### **COMPLIANCE ADVISER**

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

### **COMPANY'S WEBSITE**

[www.magicholdings.co](http://www.magicholdings.co)

### **STOCK CODE**

01633

### **PRINCIPAL BANKERS**

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

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

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

## UNAUDITED INTERIM RESULTS

The board (“**Board**”) of directors (“**Directors**”) of Magic Holdings International Limited (“**Company**”) is pleased to present the unaudited consolidated interim financial results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 31 December 2011 (“**Period**”) together with the comparative figures for the corresponding period in 2010 and the relevant explanatory notes as set out below. The interim results for the Period are unaudited, but have been reviewed by the audit committee (“**Audit Committee**”) of the Company.

## CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 31 December	
		2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
	Notes		
REVENUE	5	627,907	384,924
Cost of sales		<u>(147,048)</u>	<u>(88,052)</u>
Gross profit		480,859	296,872
Other income and gains	5	2,992	289
Selling and distribution costs		(324,373)	(199,930)
Administrative expenses		(49,830)	(21,639)
Gain on derecognition of derivative financial instruments		<u>–</u>	<u>5,100</u>
PROFIT BEFORE TAX	6	109,648	80,692
Income tax expense	7	<u>(28,949)</u>	<u>(20,297)</u>
PROFIT FOR THE PERIOD		<u>80,699</u>	<u>60,395</u>
Attributable to:			
Equity holders of the Company		82,579	60,850
Non-controlling interests		<u>(1,880)</u>	<u>(455)</u>
		<u>80,699</u>	<u>60,395</u>
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	9		
Basic		<u>HK9.89 cents</u>	<u>HK8.41 cents</u>
Diluted		<u>HK9.71 cents</u>	<u>HK8.41 cents</u>

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<b>For the six months ended</b>	
	<b>31 December</b>	
	<b>2011</b>	2010
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
PROFIT FOR THE PERIOD	<b>80,699</b>	60,395
Other comprehensive income:		
Exchange differences on translating foreign operations	<b>31,548</b>	11,271
Income tax effect	<u>—</u>	<u>—</u>
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	<u><b>31,548</b></u>	<u>11,271</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u><b>112,247</b></u>	<u>71,666</u>
Attributable to:		
Equity holders of the Company	<b>113,714</b>	71,997
Non-controlling interests	<u><b>(1,467)</b></u>	<u>(331)</u>
	<u><b>112,247</b></u>	<u>71,666</u>



## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<b>31 December 2011 (Unaudited) HK\$'000</b>	<b>30 June 2011 (Audited) HK\$'000</b>
<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	<b>72,428</b>	14,178
Goodwill	<b>15,772</b>	15,772
Intangible asset	<b>22,614</b>	24,049
Deferred tax asset	<b>2,599</b>	1,283
Prepayments and deposits	<b>14,740</b>	41,723
	<hr/> <b>128,153</b>	<hr/> 97,005
<b>CURRENT ASSETS</b>		
Inventories	<b>22,295</b>	14,845
Trade receivables	<b>199,667</b>	181,248
Prepayments, deposits and other receivables	<b>117,422</b>	97,596
Tax recoverable	<b>–</b>	877
Cash and cash equivalents	<b>1,017,515</b>	975,404
	<hr/> <b>1,356,899</b>	<hr/> 1,269,970
<b>CURRENT LIABILITIES</b>		
Trade payables	<b>42,793</b>	45,401
Other payables and accruals	<b>28,337</b>	34,311
Dividend payables	<b>30,057</b>	–
Tax payable	<b>19,031</b>	23,219
	<hr/> <b>120,218</b>	<hr/> 102,931
<b>NET CURRENT ASSETS</b>		
	<hr/> <b>1,236,681</b>	<hr/> 1,167,039
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		
	<hr/> <b>1,364,834</b>	<hr/> 1,264,044
<b>NON-CURRENT LIABILITY</b>		
Deferred tax liabilities	<b>5,654</b>	6,012
	<hr/> <b>1,359,180</b>	<hr/> 1,258,032
<b>Net assets</b>		
	<hr/> <b>1,359,180</b>	<hr/> 1,258,032
<b>EQUITY</b>		
<b>Equity attributable to equity holders of the Company</b>		
Issued capital	<b>83,491</b>	83,491
Reserves	<b>1,260,828</b>	1,158,213
	<hr/> <b>1,344,319</b>	<hr/> 1,241,704
<b>Non-controlling interests</b>		
	<hr/> <b>14,861</b>	<hr/> 16,328
<b>Total equity</b>		
	<hr/> <b>1,359,180</b>	<hr/> 1,258,032

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	From 1 July 2011 to 31 December 2011											
	Attributable to equity holders of the Company											
	Share issued capital	Share premium account	Share award reserve	Share option reserve	Merger reserve	Capital reserve	Statutory reserve fund	Retained profits	Exchange fluctuation reserve	Total	Non- controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
						Note (b)	Note (c)					
At 1 July 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
Share award expenses	-	-	10,958	-	-	-	-	-	-	10,958	-	10,958
Share option expense	-	-	-	8,000	-	-	-	-	-	-	8,000	8,000
Dividend payable	-	-	-	-	-	-	-	(30,057)	-	(30,057)	-	(30,057)
Profit for the Period	-	-	-	-	-	-	-	82,579	-	82,579	(1,880)	80,699
Other comprehensive income for the Period:												
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	31,135	31,135	413	31,548
At 31 December 2011	<u>83,491</u>	<u>629,470*</u>	<u>35,543*</u>	<u>8,000*</u>	<u>4,757*</u>	<u>100,450*</u>	<u>15,315*</u>	<u>403,346*</u>	<u>63,947*</u>	<u>1,344,319</u>	<u>14,861</u>	<u>1,359,180</u>

\* *These reserve accounts comprise the consolidated reserves of HK\$1,260,828,000 (30 June 2011: HK\$1,158,213,000) in the condensed consolidated statement of financial position.*

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
(continued)

From 1 July 2010 to 31 December 2010												
Attributable to equity holders of the Company												
	Issued capital	Share premium account	Share award reserve	Share option reserve	Merger reserve	Capital reserve	Statutory reserve fund	Retained profits	Exchange fluctuation reserve	Total	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	Note (a)	Note (a)				Note (b)	Note (c)					
At 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 to share award trustee	9	-	(9)	-	-	-	-	-	-	-	-	-
Arising from Reorganisation	279	(279)	-	-	-	-	-	-	-	-	-	-
Capitalisation issue	59,542	(59,542)	-	-	-	-	-	-	-	-	-	-
Issue of shares, net of share issue expenses	23,000	687,125	-	-	-	-	-	-	-	710,125	-	710,125
Share award expenses	-	-	4,369	-	-	-	-	-	-	4,369	-	4,369
Profit for the Period	-	-	-	-	-	-	-	60,850	-	60,850	(455)	60,395
Other comprehensive income for the Period:												
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	11,147	11,147	124	11,271
Contribution from non-controlling interests	-	-	-	-	-	-	-	-	-	-	11,270	11,270
At 31 December 2010	83,000	666,426	15,629	-	4,757	61,149	15,315	251,151	22,572	1,119,999	16,127	1,136,126

**Notes:**

- (a) During the period ended 31 December 2010, 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 equity holders of Magic Holdings Group Limited (“**Magic Holdings**”) was completed on 6 September 2010, share capital of HK\$170,000 as at 1 July 2010 represented the share capital of Magic Holdings. The details of the share swap mentioned above can be found in 2010/2011 annual report dated 26 September 2011.
- (b) Capital reserve represents (i) excess capital paid over the issued capital of Magic Holdings by the 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 from 1 January 2011 to 30 June 2011.
- (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.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	<b>For the six months ended</b>	
	<b>31 December</b>	
	<b>2011</b>	<b>2010</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES	<b>73,964</b>	(94,708)
NET CASH FLOWS (USED IN)/FROM INVESTING ACTIVITIES	<b>(31,853)</b>	124,195
NET CASH FLOWS FROM FINANCING ACTIVITIES	<u>—</u>	<u>682,031</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<b>42,111</b>	711,518
Cash and cash equivalents at beginning of the Period	<u><b>975,404</b></u>	<u>49,475</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><b>1,017,515</b></u>	<u>760,993</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<u><b>1,017,515</b></u>	<u>760,993</u>

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 1. CORPORATE INFORMATION AND BASIS OF PRESENTATION

Magic Holdings International Limited is a limited liability company incorporated in the Cayman Islands on 9 February 2010 and the shares of the Company (“**Shares**”) were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 24 September 2010.

The Group is principally engaged in the manufacture and sale of facial masks and other skincare products in Mainland China.

Certain comparative figures for prior accounting period have been restated to conform with the current period’s presentation.

### 2. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements for the six months ended 31 December 2011 has been prepared in accordance with the applicable disclosure provisions of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”), and with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements of the Group for the year ended 30 June 2011. This interim financial statements should be read in conjunction with the 2010/2011 annual report.

### 3. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs were adopted for the first time for the Period’s financial statements:

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters</i>
HKFRS 1 Amendment	Amendment to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i>
HKFRS 2 Amendments	Amendments to HKFRS 2 <i>Share-based Payment – Group Cash-settled Share-based Payment Transactions</i>
HKAS 32 Amendment	Amendment to HKAS 32 <i>Financial Instruments: Presentation – Classification of Rights Issues</i>
HKAS 39 Amendment	Amendment to HKAS 39 <i>Financial Instruments: Recognition and Measurement – Eligible Hedged Items</i>

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

### 3. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HK(IFRIC)-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i>
<i>Improvements to HKFRSs 2009</i>	Amendments to a number of HKFRSs issued in May 2009
HK Interpretation 4 Amendment	Amendment to HK Interpretation 4 <i>Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i>
HK Interpretation 5	<i>Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause</i>

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.

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.

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

### 3. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

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

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.

<sup>1</sup> *Effective for annual periods beginning on or after 1 January 2011*

<sup>2</sup> *Effective for annual periods beginning on or after 1 July 2011*

<sup>3</sup> *Effective for annual periods beginning on or after 1 January 2012*

<sup>4</sup> *Effective for annual periods beginning on or after 1 July 2012*

<sup>5</sup> *Effective for annual periods beginning on or after 1 January 2013*

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

### 3. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

The Group anticipate that the adoption of the above new and revised HKFRSs will have no significant financial effect on these financial statements.

### 4. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products. Since the Group has mainly one single product line during the Period, which is the research and development, manufacture and sale of facial masks and other skincare products, accordingly no further analysis thereof is presented.

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

Information about major customers

	For the six months ended 31 December	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Customer A	138,170	71,510
Customer B	77,851	57,401
Customer C	74,746	53,377
	<u>290,767</u>	<u>182,288</u>



**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS** *(continued)*

**5. 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:

	<b>For the six months ended 31 December</b>	
	<b>2011</b>	<b>2010</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Revenue</b>		
Sale of goods	<b>627,907</b>	384,924
<b>Other income and gains</b>		
Bank interest income	<u>2,992</u>	<u>289</u>
	<b><u>630,899</u></b>	<b><u>385,213</u></b>

**6. PROFIT BEFORE TAX**

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

	<b>For the six months ended 31 December</b>	
	<b>2011</b>	<b>2010</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Cost of inventories sold	<b>147,048</b>	88,052
Depreciation*	<b>1,505</b>	206
Amortisation of an intangible asset*	<b>2,040</b>	1,929
Employee benefit expense (including directors' remuneration)*	<b>30,843</b>	15,657
Gain on derecognition of derivative financial instruments	–	(5,100)
Retirement benefit scheme contributions	<b>5,500</b>	2,551
Equity-settled share award expenses and share-based payment expenses	<u><b>18,958</b></u>	<u>4,369</u>

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

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

### 6. PROFIT BEFORE TAX (continued)

	For the six months ended	
	31 December	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation	738	40
Amortisation of an intangible asset	2,040	1,929
Employee benefit expenses	12,003	3,990
	<u>14,781</u>	<u>5,959</u>

### 7. 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 Period.

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 rate of 15%.

	For the six months ended	
	31 December	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current – Mainland China		
Charge for the Period	30,775	20,871
Deferred	(1,826)	(574)
	<u>28,949</u>	<u>20,297</u>
Total tax charge for the Period	<u>28,949</u>	<u>20,297</u>

### 8. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 31 December 2011 (corresponding period in 2010: Nil).

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS** *(continued)*

**9. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY**

**(a) Basic**

Basic earnings per share is calculated by dividing the profit attributable to equity owners of the Company by the weighted average number of ordinary shares in issue during the Period.

	<b>For the six months ended 31 December</b>	
	<b>2011</b>	<b>2010</b>
Profit for the Period attributable to equity owners of the Company <i>(in HK\$'000)</i>	<u>82,579</u>	<u>60,850</u>
Weighted average number of ordinary shares in issue for basic earnings per share	<u>834,910,614</u>	<u>723,260,869</u>
Basic earnings per share <i>(in HK cents)</i>	<u><u>9.89</u></u>	<u><u>8.41</u></u>

**(b) Diluted**

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

	<b>For the six months ended 31 December</b>	
	<b>2011</b>	<b>2010</b>
Profit for the Period attributable to equity owners of the Company <i>(in HK\$'000)</i>	<u>82,579</u>	<u>60,850</u>
Weighted average number of ordinary shares in issue for basic earnings per share	<u>834,910,614</u>	<u>723,260,869</u>
Adjustment for share options granted on 27 September 2011	<u>15,652,174</u>	<u>–</u>
Weighted average number of ordinary shares for diluted earnings per share	<u>850,562,788</u>	<u>723,260,869</u>
Diluted earnings per share <i>(in HK cents)</i>	<u><u>9.71</u></u>	<u><u>8.41</u></u>

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

### 10. 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. 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 Period, based on the invoice date, is as follows:

	<b>31 December 2011 (Unaudited) HK\$'000</b>	30 June 2011 (Audited) HK\$'000
Within 180 days	<b>182,595</b>	181,248
181 to 365 days	<b>17,072</b>	–
	<b><u>199,667</u></b>	<b><u>181,248</u></b>

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS** *(continued)*

**11. TRADE PAYABLES**

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

	<b>31 December 2011 (Unaudited) HK\$'000</b>	30 June 2011 (Audited) HK\$'000
Within 90 days	<b>42,793</b>	45,401
Over 90 days	<u>—</u>	<u>—</u>
	<b><u>42,793</u></b>	<b><u>45,401</u></b>

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

**12. SHARE CAPITAL**

The details of the authorised and issued share capital of the Company as at 31 December 2011 and 30 June 2011 are as follows:

	<b>31 December 2011 (Unaudited) HK\$'000</b>	30 June 2011 (Audited) HK\$'000
<i>Authorised:</i>		
2,000,000,000 ordinary shares of HK\$0.1 each	<b><u>200,000</u></b>	<b><u>200,000</u></b>
<i>Issued:</i>		
834,910,614 ordinary shares of HK\$0.1 each	<b><u>83,491</u></b>	<b><u>83,491</u></b>

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

### 12. SHARE CAPITAL *(continued)*

There is no change in the Company's authorised and issued share capital during the period from 30 June 2011 to 31 December 2011.

	Number of ordinary shares	Nominal value of ordinary shares <i>HK\$'000</i>
<i>Authorised:</i>		
At 31 December 2011	<u>2,000,000,000</u>	<u>200,000</u>
<i>Issued:</i>		
At 31 December 2011	<u>834,910,614</u>	<u>83,491</u>

### 13. OPERATING LEASE COMMITMENTS

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 31 December 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	31 December 2011 (Unaudited) <i>HK\$'000</i>	30 June 2011 (Audited) <i>HK\$'000</i>
Within one year	1,761	2,105
In the second to fifth years, inclusive	891	1,439
After five years	<u>–</u>	<u>1,084</u>
	<u>2,652</u>	<u>4,628</u>

### 14. COMMITMENTS

As at 31 December 2011, the Group did not have any material commitments (30 June 2011: HK\$28,856,000).

### 15. CONTINGENT LIABILITIES

As at 31 December 2011, the Group did not have any significant contingent liabilities (30 June 2011: Nil).

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS** *(continued)*

**16. SHARE OPTION SCHEME**

The Company has granted 30,000,000 share options on 27 September 2011 which vested immediately and the Binomial model has been adopted to estimate the fair value of the share options as at the grant date, 27 September 2011. The fair value of the share options estimated at the date of grant using the Binomial model was approximately HK\$16,000,000.

The following assumptions were used to calculate the fair value of the share options:

Date of Grant	27 September 2011
Maturity Date	26 September 2013
Grant date share price	HK\$2.31
Exercise price*	HK\$2.432
Expected life	2 years
Expected volatility	47.354%
Dividend yield	1.56%
Risk-free interest rate	0.186%
Exercise Multiple	1.5-2.0

Changes in variables and assumptions used in computing the fair value of the share options may result in changes in the fair value of the share options.

\* *After the Period, as at 13 January 2012, the exercise price and number of share options have been adjusted to HK\$2.027 and 36,000,000 shares respectively as a result of the bonus issue of the Company at 13 January 2012. Further details can be referred to announcement of the Company dated 16 December 2011 regarding the adjustments to options.*

## MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in the research and development, manufacture, sales and marketing of facial masks 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 Period under review, the Group continued to achieve a positive return through well established distribution channels, a successful MG Brand marketing promotion strategy from “shoppers-oriented” to “consumers-oriented” as well as a continuous effort in enhancing the MG Brand positioning in the facial mask industry in the PRC. According to the 2012 ForbesChina magazine published in January 2012, the Group had been evaluated as one of the most potential listed enterprises in PRC and entered the top 10 of PRC’s most potential listed enterprises ranking.

Moreover, MG Brand has also been awarded 2011 Cosmopolitan Beauty Awards from the Cosmopolitan magazine in PRC.



## FINANCIAL REVIEW

The Group maintained a healthy rapid growth during the Period under review. Sales revenue for the Period amounted to approximately HK\$627,907,000, representing a growth of approximately 63.1% as compared with approximately HK\$384,924,000 in the corresponding period last year. The gross profit margin maintained at a relatively high level of approximately 76.6% during the Period. Profit attributable to equity holders increased to approximately HK\$82,579,000 during the Period, representing an increase of approximately 35.7% from approximately HK\$60,850,000 in the corresponding period last year.

The total selling, general and administrative expenses incurred by the Group during the Period under review was approximately HK\$374,203,000, representing in aggregate approximately 59.6% of the total sales revenue, of which, total selling and distribution expenses were approximately HK\$324,373,000, representing approximately 51.7% of total sales revenue in aggregate. Administrative expenses were approximately HK\$49,830,000, out of which approximately HK\$18,958,000 were incurred as share-based payments and equity-settled share award expenses.



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### BUSINESS REVIEW

#### Brand positioning

While both sales revenue and profit continued to achieve rapid growth, the positioning and brand awareness of MG Brand further improved 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 maintained at the top position in the PRC facial masks industry for three consecutive years with the largest market share of 18.5% in year 2011, 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 in the PRC.

With the consumers’ growing in-depth recognition for the facial masks skincare functionalities and their leisure beauty experience values, the facial masks are becoming an independent skincare product category, while the professional values and leisure beauty values of MG Brand are gaining more and more recognition 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 strengthening the above advantage.

#### Brand promotion

Besides maintaining sufficient resources on the shopper-oriented promotional strategy (below-the-line) for our MG Brand at terminal stores, we continue to allocate more resources on the consumer-oriented promotional strategy (above-the-line), including advertisements on television, magazines, metro, Focus Media Terminal Hypermarkets, displays in office buildings and VisionChina’s bus videos during the Period under review.



Throughout 2011, we have expanded the MG 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 (continued)

### BUSINESS REVIEW (continued)

#### Brand promotion (continued)

While increasing the promotion coverage through advertisements, we also commenced the internet-based promotional activities, and had engaged OgilvyOne (奧美互動), a renowned company in Internet communication and the direct response and digital division of Ogilvy & Mather, as our important partner to promote our MG Brand on Internet.



Throughout 2011, we became the principal title sponsor of Qinghai Satellite Television's singing talent contest, Blossoming Flowers (花儿朵朵), 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 (花儿朵朵) 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 stores promotional activities under this theme.



## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### BUSINESS REVIEW *(continued)*

#### Brand promotion *(continued)*

The aforesaid brand promotional activities resulted in enhancing the popularity and reputation of MG Brand, which are of great benefits in facilitating channel expansion, promoting terminal stores 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

During the Period under review, we continue our channel build-up strategy by intensifying our efforts in channel construction and shop locations selection; 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 and begin to develop the more fast moving consumable sale channel, which are the convenience stores in first tier cities such as Beijing and Shanghai; and by accelerating the development and deployment of beauty products specialty stores in the third and fourth tier cities. This strategy was fully implemented and achieved satisfactory results throughout 2011. 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.



As at 31 December 2011, we had 214 distributors (174 distributors as at 30 June 2011) which was mainly due to the increase in channel distributors of beauty specialty stores in the third and fourth tier cities. The number of total terminal stores coverage was 8,475 (6,264 stores as at 30 June 2011), which 2,211 stores were newly established during the Period. The new stores were 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-size supermarkets and hypermarkets. The personal healthcare product chain stores during the year increased by 183 stores from 872 to 1,055 stores, and the new stores in supermarket and hypermarkets increased by 561 stores from 2,777 to 3,338 stores and also a new sales channel of 1,066 convenience stores in Beijing and Shanghai.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### BUSINESS REVIEW *(continued)*

#### Channel building up *(continued)*

The number of our beauty products specialty stores in the third and fourth tier cities continued to sustain a rapid growing trend and increased by 401 stores from 2,615 stores to 3,016 stores.

The smooth development of channel construction is of significant implication. On one hand, the new stores (meaning new stores opened after 31 December 2010) contributed considerable sales revenue for the Group, which represented approximately 68% of the overall growth of sales revenue during the Period. 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 MG Brand'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 the competitors.

While having rapid increase of our terminal stores, we continue to enhance the operation and construction of our original stores (meaning existing stores opened before 31 December 2010) and achieved good results of sales revenue. During the Period under review, sales revenue of our original stores increased by 20%, representing approximately 32% of our overall growth of sales revenue.

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 Period under review, personal care chain stores achieved a steady growth in sales revenue, representing approximately 38% of our overall sales revenue. Sales revenue of various supermarkets, hypermarkets and convenience stores represented approximately 42% of our overall sales revenue. Our beauty products specialty stores in the third and fourth tier cities represented approximately 20% of our overall sales revenue.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### BUSINESS REVIEW (continued)

#### New product development

To further enrich our products portfolio, during the year 2011, we had launched a total of eight new products to the basic series and one new product to the wash off mask series under our MG Brand, 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), Aloe Water Bank Hydrating mask (蘆薈水酷補水面膜) and Chamomiles Extra-protective Squeeze Mask (洋甘菊舒緩倍護啣啣面膜). The above nine new products have obtained stable customers and sales feedback, representing approximately 9.1% of total sale revenue for the Period under review.



During the Period under review, sales revenue 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 approximately 9.2%, 9.2% and 5.9% of total sales of the MG facial masks respectively, with approximately 24.3% in aggregate. The sales contribution by the medium and high end products had increased especially for Forever Silky (流金絲語), which will widen 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 (continued)

### BUSINESS REVIEW (continued)

#### New product development (continued)

In January 2012, there are two whole new series of products that have been launched to the market under MG Brand, namely Password For Beauty and Mineral Mud Deep Cleansing. Under the Password For Beauty series, there are eight different products namely, MG Silk Protein Mask (美即蠶絲蛋白面膜), MG Royal Jelly Mask (美即蜂王漿面膜), MG Shea Butter Mask (美即乳木果面膜), Blue-water Collagen Mask (美即深海膠原面膜), MG Snow Lotus Mask (美即天山雪蓮面膜), MG Snow Fungus and Bird's Nest Mask (美即雪耳燕窩面膜), MG Caviar Extract Mask (美即魚子精華面膜), MG Pearl and Honey Mask (美即珍珠蜜糖面膜) and four products under the Mineral Mud Deep Cleansing series namely, MG Ocean Mineral Clay Mask (美即海洋礦物泥面膜), MG Flower Clay Mask (美即花泥面膜), MG Active Carbon Mask (美即活性炭面膜) and MG Volcano Clay Mask (美即火山泥面膜). We expect these two new series will provide an excellent contribution in term of sales revenue and increase the number of customers of MG Brand by enlarging the choice of selection to our existing customers and attract new customers.



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### BUSINESS REVIEW (continued)

#### Multi-brand and multi-category development

During the Period under review, the joint venture (its 51% interests is controlled by the Group) between the Group and Hanbul Comsmetics Co. Ltd. (“**Hanbul**”), a reputable cosmetic company in Korea, had carried out the operation as scheduled. Its board of directors has reached consensus on several major issues including the management team, the development strategy in PRC’s market and exploring the skincare industry in addition to the facial masks industry.



#### Quality control

During the Period under review, 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 procedural administration to ensure the quality and safety of the Company’s products. Consumer health protection and safety are our priority concern as they will maintain the high credibility of the Group and consumers’ confidence in our products.

### FUTURE PROSPECTS

Looking forward, the Group will continue to implement our healthy rapid growth strategy. We will increase our efforts in MG Brand positioning by allocating more resources to consumer-oriented promotional strategy in different major cities throughout PRC. The Group will continue to optimize the existing sales channel, distributors and to accelerate the development of skincare specialty stores in third and fourth tier markets and explore more valuable sales channels.

The Group will also increase its efforts in product research and development on new products to cater for different needs and demand of the existing and new customers in order to widen our customer base and to attract more new customers from different segments.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### FUTURE PROSPECTS *(continued)*

At the same time, the Group will actively and comfortably promote the multi-brand, multi-category and multi-channels development strategy to lay a foundation for the diversified development in the future, open up a new perspective and pave our ways to create a better return for our shareholders.

### LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2011, the Group had unpledged cash and bank balances of approximately HK\$1,017,515,000 (30 June 2011: approximately HK\$975,404,000). The gearing ratio for the Group was 0% (30 June 2011: 0%) as the Group had no outstanding bank borrowing as at 31 December 2011 (30 June 2011 outstanding bank loan: Nil). Net current assets was approximately HK\$1,236,681,000 (30 June 2011: approximately HK\$1,167,039,000) and current ratio were maintained at a healthy level of approximately 11.3 (30 June 2011: approximately 12.3) as at 31 December 2011.

No finance costs incurred by the Group for the Period (corresponding period in 2010: Nil).

### COMMITMENTS

As at 31 December 2011, the Group had the following capital commitments:

	Group	
	31 December 2011 (Unaudited) HK\$'000	30 June 2011 (Audited) HK\$'000
Contracted, but not provided for:		
Leasehold land and buildings	–	27,296
Acquisition of trademarks*	<u>1,560</u>	<u>1,560</u>
	<u><u>1,560</u></u>	<u><u>28,856</u></u>

\* 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 Period and up to the date of the approval of the financial statements, the trademarks assignments have not been completed.



## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### CONTINGENT LIABILITIES

As at 31 December 2011, the Group did not have any significant contingent liabilities (30 June 2011: Nil).

### BANK BORROWINGS

As at 31 December 2011, the Group had no outstanding bank loans (30 June 2011: Nil).

### SEASONAL OR CYCLICAL FACTORS

During the Period, the Group's business operations were not significantly affected by any seasonal or cyclical factors.

### FOREIGN EXCHANGE EXPOSURE

During the Period, the Group mainly generated 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 Period, the Group generally financed its operations with internally generated resources and the net proceeds from the initial public offering. The Group mainly placed these resources into interest-bearing bank accounts opened with PRC and Hong Kong banks and earned interests in accordance with the PRC and Hong Kong bank rates. Bank deposits were mainly denominated in Renminbi and Hong Kong Dollar.

### EMPLOYEES, TRAINING AND REMUNERATION POLICIES

As at 31 December 2011, the Group had a total of 3,355 employees (31 December 2010: 2,237), of whom 3,350 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 Period, staff costs (including Directors' remunerations) amounted to approximately HK\$30,843,000 (corresponding period in 2010: approximately HK\$15,657,000). Staff costs accounted for approximately 4.9% of the Group's turnover (corresponding period in 2010: approximately 4.1%) during the Period. 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 Period.

## INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the Period (corresponding period in 2010: Nil).

## ADDITIONAL INFORMATION

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

As at 31 December 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 Appendix 10 to the Listing Rules (“**Model Code**”), were as follows:

Name of Director	Name of Group member/ associated corporation	Capacity	Number and class of securities ( <i>Note 1</i> )	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 ( <i>Note 2</i> )	75,328,393 Ordinary shares (L)	9.02%
	The Company	Grantee under the share award plan ( <i>Note 3</i> )	3,209,370 Ordinary shares (L)	0.38%
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 ( <i>Note 3</i> )	4,153,302 Ordinary shares (L)	0.50%
	The Company	Interest of spouse	839,051 Ordinary shares (L)	0.10%

**ADDITIONAL INFORMATION** *(continued)*

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

<b>Name of Director</b>	<b>Name of Group member/ associated corporation</b>	<b>Capacity</b>	<b>Number and class of securities</b> <i>(Note 1)</i>	<b>Approximate percentage of shareholding</b>
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 <i>(Note 3)</i>	1,279,553 Ordinary shares (L)	0.15%
	The Company	Interest of spouse	943,932 Ordinary shares (L)	0.11%
Mr. Tang and Mr. She	The Company	Trustee <i>(Note 4)</i>	23,280,965 Ordinary shares (L)	2.79%
Professor Dong Yin Mao ("Professor Dong")	The Company	Beneficial owner	300,000 Ordinary shares (L)	0.04%
	The Company	Grantee under the share option scheme <i>(Note 5)</i>	300,000 Ordinary shares (L)	0.04%
Professor Yang Rude ("Professor Yang")	The Company	Beneficial owner	300,000 Ordinary shares (L)	0.04%
	The Company	Grantee under the share option scheme <i>(Note 5)</i>	300,000 Ordinary shares (L)	0.04%
Mr. Yan Kam Tong ("Mr. Yan")	The Company	Beneficial owner	300,000 Ordinary shares (L)	0.04%
	The Company	Grantee under the share option scheme <i>(Note 5)</i>	300,000 Ordinary shares (L)	0.04%
Mr. Sun Yan ("Mr. Sun")	The Company	Beneficial owner	300,000 Ordinary shares (L)	0.04%
	The Company	Grantee under the share option scheme <i>(Note 5)</i>	300,000 Ordinary shares (L)	0.04%

## ADDITIONAL INFORMATION *(continued)*

### DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS *(continued)*

*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.
5. These shares represent the shares of the Company which each of Professor Dong, Professor Yang, Mr. Yan and Mr. Sun could exercise in accordance with the terms and conditions of the share options made to him and the rules of the share option scheme adopted pursuant to a resolution in writing passed by all the shareholders on 6 September 2010.

Save as disclosed above, as at 31 December 2011, 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.

**ADDITIONAL INFORMATION** *(continued)*

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

As at 31 December 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:

<b>Name of shareholder</b>	<b>Number of shares</b> <i>(Note 1)</i>	<b>Nature of interest</b>	<b>Approximate percentage of interest of the Company</b>
Queenherb Enterprises Limited	208,709,238 (L)	Beneficial owner	25.00%
Hua Han Bio-Pharmaceutical Holdings Limited <i>(Note 2)</i>	208,709,238 (L)	Interest of controlled corporation	25.00%
Wu Xiao Qing <i>(Note 3)</i>	127,192,404 (L) 167,810 (L) 671,241 (L)	Interest of spouse Beneficial owner Grantee under the Share award Plan <i>(Note 4)</i>	15.23% 0.02% 0.08%
MG Company Limited <i>(Note 5)</i>	52,440,676 (L)	Beneficial owner	6.32%
Ho Ching Han <i>(Note 6)</i>	103,423,070 (L)	Interest of spouse	12.39%
Atlantis Capital Holdings Limited	92,809,950 (L)	Interest of controlled corporation	11.12%
Liu Yang <i>(Note 7)</i>	92,809,950 (L)	Interest of controlled corporation	11.12%
Riverwood Asset Management (Cayman) Limited	48,008,545 (L)	Investment manager	5.75%
JP Morgan Chase & Co.	43,437,117 (L)  43,437,117 (P) <i>(Note 8)</i>	Custodian corporation/approved lending agent  Custodian corporation/approved lending agent	5.20%  5.20%



## ADDITIONAL INFORMATION *(continued)*

### SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSUANT TO PART XV OF THE SF ORDINANCE *(continued)*

#### Notes:

1. The letter “L” denotes long position and the letter “P” denotes lending pool 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 Capital Holdings Limited. Therefore, Liu Yang is deemed to be interested in the shares held by Atlantis Capital Holdings Limited under the SF Ordinance.
8. 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 31 December 2011, 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.

## ADDITIONAL INFORMATION *(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.

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;
- (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 share options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants.

## **ADDITIONAL INFORMATION** *(continued)*

### **SHARE OPTION SCHEME** *(continued)*

As at 31 December 2011, 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 31 December 2011.

As at 31 December 2011, a total of 30,000,000 share options have been granted under the Scheme on 27 September 2011 and no share options have been exercised.

The maximum number of shares issuable upon exercise of the share options which may be granted under the Scheme and any other share option scheme of the Group (including both exercised or outstanding share 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 share 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 share options subject to the provisions for early termination under the Scheme.



**ADDITIONAL INFORMATION** (continued)

**SHARE OPTION SCHEME** (continued)

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.

The following table sets out the details of the share options which were granted, exercised or outstanding under the Scheme during the Period:

Grantee	Number of share options					Date of grant of share options	Exercise period of share options	Exercise price of share options	Closing price per share before date on which the share options were granted (Note (a))
	As at 1 July 2011	Granted during the Period	Exercised during the Period	Cancelled/Lapsed during the Period	As at 31 December 2011				
<b>Directors</b>									
Mr. Sun	-	300,000	-	-	300,000	27 September 2011	27 September 2011-26 September 2013	HK\$2.432	HK\$1.69
Mr. Yan	-	300,000	-	-	300,000	27 September 2011	27 September 2011-26 September 2013	HK\$2.432	HK\$1.69
Professor Dong	-	300,000	-	-	300,000	27 September 2011	27 September 2011-26 September 2013	HK\$2.432	HK\$1.69
Professor Yang	-	300,000	-	-	300,000	27 September 2011	27 September 2011-26 September 2013	HK\$2.432	HK\$1.69
	<u>-</u>	<u>1,200,000</u>	<u>-</u>	<u>-</u>	<u>1,200,000</u>				
<b>Employees</b>									
	-	28,800,000	-	-	28,800,000	27 September 2011	27 September 2011-26 September 2013	HK\$2.432	HK\$1.69
<b>Total</b>	<u>-</u>	<u>30,000,000</u>	<u>-</u>	<u>-</u>	<u>30,000,000</u>				

Note (a): This refers to the Stock Exchange closing price on the date immediately preceding the date of the grant of the share options, i.e. 26 September 2011 (the closing price has been adjusted as a result of the distribution of HK\$0.036 as the final dividend for the year ended 30 June 2011 pursuant to a resolution passed on the annual general meeting held on 16 December 2011).



## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

Neither the Company, nor any of its subsidiaries, has purchased, redeemed or sold any of the Company's listed securities during the Period.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

In the opinion of the Directors, the Company has complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules since the date of listing of the shares of the Company on the Stock Exchange and up to the date of this report.

## **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 the Model Code. Having made specific enquiries of all Directors and senior management of the Group, all Directors and senior management of the Group confirmed that they 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 since the date of listing and up to the date of this report.

By the order of the Board  
**Magic Holdings International Limited**  
**Tang Siu Kun Stephen**  
*Chairman*

Hong Kong, 28 February 2012