MAGIC HOLDINGS INTERNATIONAL LIMITED
美即控股國際有限公司

2011/2012 Annual Report

(Incorporated in the Cayman Islands with limited liability
Stock Code:1633)


野玫瑰紧肤舒颜
面膜
燕麦蜜糖润泽亮颜
面膜
海洋冰泉补水
面膜
美即
OCEAN ICE SPRING HYDRATING MASK
DEEP MOISTURIZING & RELIEVING
深层补水 舒缓减压
夏日冰凝舒缓
面膜
美即
SUPER COOL SUN-HEAL RESTORING MASK
REPAIRING & REFRESHING
冰凝清凉 舒缓滋润
玄米嫩白透亮
美即面膜
维他命E净白补湿
豆乳水润白皙
美即面膜
SOYBEAN MILK HYDRATING & WHITENING MASK
HYDRATING & WHITE SMOOTH
水透润泽 · 细嫩白滑
牛奶白滑润颜
面膜
美即

Contents

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Tang Siu Kun Stephen *(Chairman)*
Mr. She Yu Yuan
Mr. Luo Yao Wen
Mr. Cheng Wing Hong (appointed on 1 July 2012)
Mr. Zhang Kun Mou (resigned on 30 June 2012)
Mr. Chen Lei (resigned on 30 June 2012)

Non-executive Directors

Mr. Sun Yan
Mr. Chen Dar Cin (appointed on 1 July 2012)

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. Tang Siu Kun Stephen
Mr. She Yu Yuan
Mr. Yan Kam Tong
Professor Yang Rude

NOMINATION COMMITTEE

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

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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CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Certified Public Accountants
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LEGAL ADVISER AS TO CHINA LAWS

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Xicheng District Beijing 100031
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COMPLIANCE ADVISER

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China

COMPANY'S WEBSITE

www.magicholdings.co

STOCK CODE

01633

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
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The Hongkong and Shanghai Banking Corporation Limited
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Hong Kong
China

Oversea-Chinese Banking Corporation Limited
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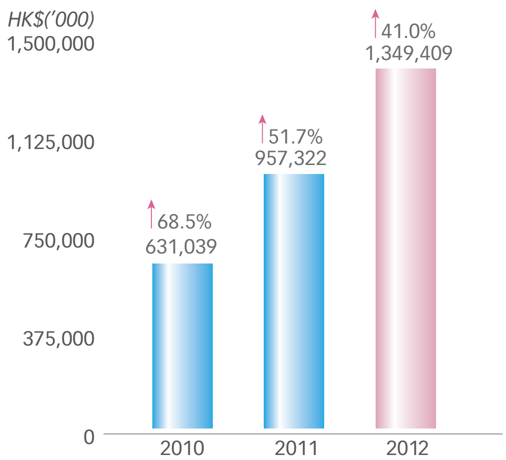
Central, Hong Kong
China

FINANCIAL HIGHLIGHTS

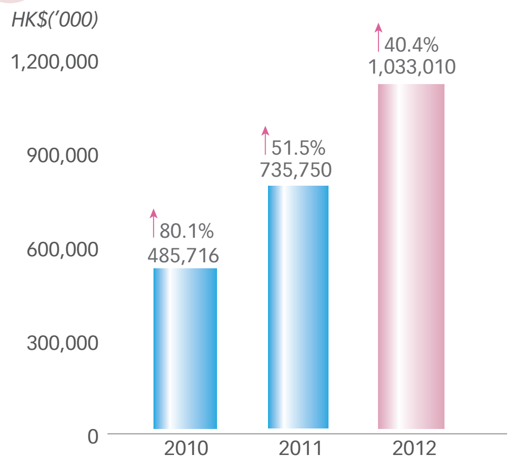
	2012 HK$'000	2011 HK$'000	Increase/ (Decrease) % Change
Sales revenue	**1,349,409**	957,322	41.0%
Gross profit	**1,033,010**	735,750	40.4%
Profit attributable to equity holders of the Company	**204,513**	160,523	27.4%
Net profit excluding non-operating income and expense	**226,661**	155,738	45.5%
Basic earnings per share (HK cents)	**20.36**	16.94	20.2%
Gearing ratio (%) *(Note)*	**Nil**	Nil	0%
Net Cash	**1,104,202**	975,404	13.2%

Note: There was no outstanding bank borrowing as at 30 June 2012 and 30 June 2011.

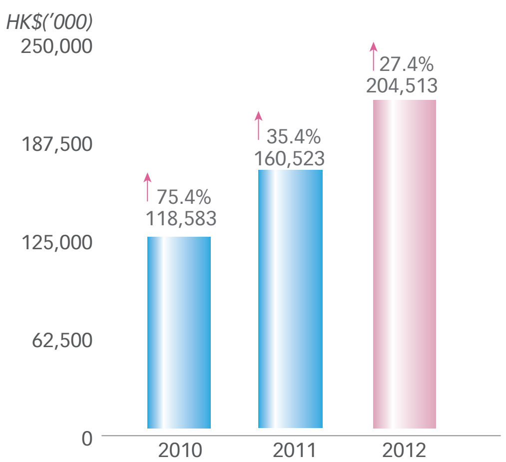
SALES REVENUE



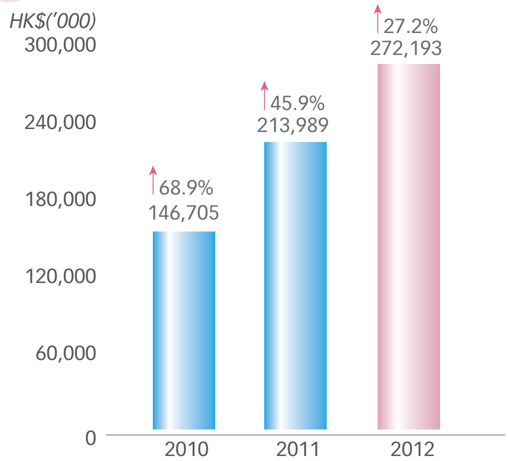
GROSS PROFIT



PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY



EBITDA



Dear Shareholders,

On behalf of the board (the “**Board**”) of directors (the “**Directors**”) of Magic Holdings International Limited (the “**Company**” or “**MG**”, together with its subsidiaries, the “**Group**”), I am pleased to announce that we have delivered another outstanding financial year ended 30 June 2012. While China’s economy growth slowed down in the past year, for the facial mask industry grew as expected, with an increase of approximately 29% for the calendar year 2011 from 2010. Thanks to the rapid growth of the industry and the effective implementation of the Company’s strategies, the Group’s sales revenue grew at a rate much higher than that of the industry, which were approximately 64% in the calendar year 2011 and approximately 41% in the financial year 2012, respectively. In January 2012, the Group was recognized by Forbeschina magazine as one of the listed enterprises in the PRC with greatest potential for its rapid growth, ranking among the top 10.

ACHIEVEMENTS IN THE FINANCIAL YEAR 2012

The Group’s sales revenue has reached a new record high. Despite the slower growth of China’s economy, the Group still managed to achieve a robust growth of approximately 41% in sales revenue for the financial year 2012, successfully breaking the great bottleneck of annual sales of RMB1 billion for many private enterprises in China. This has paved the way for our future development.

Market share continued to rise at a steady pace. According to a report prepared by Kantar Worldpanel Limited, a subsidiary of CTR Market Research Company Limited ("**CTR Report**"), the PRC facial mask industry continued to grow fast, at 29%, in the calendar year 2011. As a leading brand in this sector, MG grew at a rate 1.4 times that of the industry average, maintaining its leading position in the facial mask sector, and its market share continued to rise steadily to 18.5%, ranking the first for the third consecutive year.

Channel expansion produced positive results. Distribution channel is vital to fast moving consumer goods. As facial mask products become increasingly fast moving, we have been implementing our prudent channel expansion strategies of "centralized first, then local" and "mainstream first, then supplementary" since 2005, leading to another major breakthrough in the financial year 2012 with the number of points of sales exceeding 10,000 stores. To date we have substantially covered national personal healthcare chain stores, hyper markets and supermarket chain stores in the first- and second-tier cities, expanded our network of skincare specialty stores in the third- and fourth-tier cities, and developed convenience stores as a more fast moving channel. Furthermore, in light of the trend of fast growth of E-commerce, we stepped up our efforts to develop E-commerce business, which has produced positive results: with sales contribution of 7% of our total sales for the financial year ended 2012. To date, the Group's sales channel system has been substantially established and has started to take positive effect.

Innovative product research and development leads the industry. We have been committed to developing innovative products to meet consumers' needs, and striving to establish our position as a facial mask expert and industry leader. As more consumers start to recognize the effect of and the experience brought by facial masks, a new trend of growing popularity of facial masks over traditional skincare products has emerged, more consumers prefer facial masks over various traditional skincare products. Given such trend, our newly-developed Mineral Mud Deep Cleansing facial mask series and Password for Beauty facial mask series have received wide acceptance following their introduction. They have optimized our wash-off facial mask product mix and justified our strategic judgment of "growing popularity of facial masks over traditional skincare products" and our product development strategies.

CHANGES IN THE DEVELOPMENT TREND OF FACIAL PRODUCTS AND RESULTING OPPORTUNITIES AND CHALLENGES

In early 2005, we predicted that facial marks would become a popular and fast moving product and formed thoughtful strategies on product, pricing, distribution channels and marketing strategies. Currently, the development of facial masks industry has justified our prediction, as a result of, we have achieved continuing fast growth with our remarkable insights, proper strategies and strong executive ability.

For Chinese consumers, facial masks have shifted to fast moving consumer goods from high-end luxury goods, and facial masks have increasingly become an independent category of skincare products which are receiving more attention. As at the end of 2011, the penetration rate of facial masks industry in China increased to 29.7%. With more frequent use of facial masks by the consumers and their wide recognition and acceptance of facial masks with varying forms, functions and ingredients, facial mask products have maintained a rapid growth of nearly 30% for years and have become a major product category with retail sales of more than RMB10 billion in China.

THE TURNING POINT OF THE DEVELOPMENT OF FACIAL MASK PRODUCTS IN 2012

The period before 2012 was the infant stage for facial mask products, while facial mask products grew rapidly, they were at a small scale on the whole and had a low penetration rate in real terms. As such, the then market players were primarily domestic small- and medium-sized enterprises which generally considered facial masks as another business with limited competitive advantage. MG was the first to foresee the great business opportunities in facial masks. It had been dedicated to its long-term operation of branded specialty facial mask products and had successfully differentiated from its competitors and took the leading position.

In 2012, we believe facial mask products will enter its fast growth phrase from infant stage. This will bring about huge changes to the overall facial mask products and result in unprecedented opportunities and challenges.

Firstly, as facial mask products continue to expand in scale, they will become driven by two drivers, being "increase in penetration rate" and "more frequent use", rather than a single driver of "increase in penetration rate" in the past, so that the facial mask product category will continue to maintain relatively fast growth. These two drivers come from the increasingly fast moving of facial masks, consumers' recognition of and preference for facial masks, and the vigorous promotion by brands with stronger competitive advantages. The continuing fast growth of the facial mask product category as a whole will definitely provide a huge opportunity to a leading brand like our MG brand.

As facial mask products continue to expand in size, more large and capable enterprises with strong brand image enter the facial mask market, shifting their focus to the facial mask market which will change the fundamental of the facial industry as a whole. Within the next two to three years, we expect facial mask products to undergo another round of consolidation, which will eventually establish a healthy, orderly and stable market. Despite our leading position, we will face even more fierce competition. It is essential for us to consolidate our core business in order to support our longer-term stable growth and is a challenge that we must overcome.

FUTURE DEVELOPMENT STRATEGIES

We believe our facial mask business, as the Group's core business, still have great growth potential, and currently the facial mask market is at a stage of consolidation. Whoever is the winner at this stage will receive the longest-term and greatest benefits. The major measurement of the current competition is conducted in terms of consumers' brand preference, sales volume and market share of the facial industry. As such, it will be our core strategy in the next two to three years to continue to increase our leading brand position to capture the rapid growth of the facial mask sector, to have a clear mind and cope with changing competition landscape, and to take more proactive market actions and put more effort into developing our facial mask business, in order to maintain our strong leading position in the facial mask market.

In the facial mask industry, we believe brand and distribution is the key to the success. To this end, we will continue to enhance our effort in above-the-line media brand promotion (including Internet promotion), and below-the-line infrastructure and sales promotion.

"Relax and enjoy beauty" is MG's unique brand notion, derived from the maximized value of our differentiated facial mask products, and will be the main theme of our above the line media brand promotion in the future. In response to changes in consumers' habit of media exposure, we will methodically arrange the deployment of such traditional media advertisement as television, newspapers and magazines, and outdoor advertising, and meanwhile focus more on areas such as the Internet and public relations in order to improve consumers' experience and interaction with our MG brand. We are confident that more consumers will have a growing recognition at the effective skincare treatment of MG brand products and increase the width and depth of our MG brand promotion. By doing so, we will promote our brand awareness, reputation, and consumer loyalty to our MG brand.

Our distribution system has been established in initial shape. In parallel with constant expansion of terminal stores, we will emphasize more on the quality development of terminal stores. We will endeavor to foster strategic cooperation with sales channel providers on the management of facial mask products to secure better display positions, larger display areas, and more brand specialty counters. Coupled with a wider coverage of shopping guides at the terminal stores and improved professionalism, we will enhance the customers' loyalty to our MG brand in their shopping experience and increase the efficiency of each store.

Developing innovative products is another important characteristic of a brand leader. While maintaining our well-established tradition of in-depth research and understanding of consumers' current and future needs, we will enhance MG's image as an expert on facial masks and lead the development of facial mask products, by increasing our investments in research and development, improving the organization and process of research and development, attracting talents in innovative technology research and development and management, and developing and marketing more facial mask products popular with consumers.

We always consider product quality as our lifeline. In the future, we will continue to enhance our quality management in the whole process from research and development of raw materials to production, to storage and logistics and to sales, in accordance with the relevant laws and regulations and strict quality standards.

We are in the process of planning, constructing and introduce production lines to our new plant located in the Guangzhou High-tech Industrial Development Zone. By the completion of the new plant, our production and quality management capability will further improve.

It is also vital for us to establish and improve a modern, reasonable and regulated system of organization, operation and management. As stated above, annual sales of RMB1 billion is an important milestone and great bottleneck for many private enterprises in China. Reviewing the history of the enterprises in China, many had long been strapped, and even retreated, before they broke the bottleneck of annual sales of RMB1 billion, the root cause of which is not that they were not able to realize expansion, but that they failed to improve their systems of organization and operation to keep up with its fast growth. Likewise, after years of rapid growth, MG brand is facing the same challenge. To overcome the challenge, we will strive to enhance and improve our operation management system by appointing experts, consultants, recruiting calibers, reinforcing training and reforming our organizations and systems.

As for multi-category and multi-brand development, we will still pursue a forward-looking and prudent strategy. Back in the early years of MG facial masks, we also underwent a two-year-long process of exploration, discussion and adjustment, until we identified the opportunities and business model for our success in 2005. Accordingly, we have started to make preparations for expansion into other business areas while we are still enjoying fast growth of our core business (facial mask products), which will help us explore business opportunities and business models with a calmer mind.

CHAIRMAN'S STATEMENT

The operation and organization of our multi-category and multi-brand business is fully independent of our core business, but our distribution channels as well as market experiences and strategies may be fully shared. At present the companies have been established to operate our new business, the organization structures and core management have been in place. Following the substantial completion of preparation works at the early stage, our products under KEEP UP brand have been launched in the market and the ICS brand products are expected to be introduced in the next financial year.

With our insightful visions, effective market strategies, strong executive ability and improved operation and management, we believe the Group will continue its healthy development to maximize shareholder returns.

Finally, on behalf of the Board, I would like to take this opportunity to express my sincere gratitude to our management and staff for their hard work and valuable contributions, and to thank our customers, suppliers, business partners, professional parties and shareholders for their continuous commitment and unwavering support.

Tang Siu Kun Stephen
Chairman

Hong Kong
17 September 2012

The Group is principally engaged in manufacture, sales and marketing of facial mask products and other skincare products including MG brand ("**MG Brand**") and Keep Up brand ("**Keep Up Brand**") in China. During the year ended 30 June 2012, the Group achieved a positive return through its intensive efforts on brand building and marketing, well-established distribution networks as well as the development of new products offerings.

FINANCIAL REVIEW

During the year ended 30 June 2012, the Group maintained a healthy continuous growth and achieved a new height. Sales revenue for the year ended 30 June 2012 amounted to approximately HK$1,349,409,000, representing a growth of approximately 41.0% as compared with approximately HK$957,322,000 in the preceding financial year. Gross profit margin maintained at approximately 76.6% in the year ended 30 June 2012 as compared to approximately 76.9% in the preceding financial year as a result of sales volume increase, effective production cost control and stable growth in sale contribution by the mid to high end series with higher profit margin. Profit attributable to equity holders increased to approximately HK$204,513,000 in the year ended 30 June 2012, representing an increase of approximately 27.4% from approximately HK$160,523,000 in financial year 2011. Regardless of the non-operating income, namely gain on derecognition of derivative financial instruments, foreign exchange differences, and the non-operating expenses, namely equity settled share option and award expenses, the adjusted net profit for the year ended 30 June 2012 increased by approximately 45.5% from approximately HK$155,738,000 in financial year 2011 to approximately HK$226,661,000 in the year ended 30 June 2012.

The total selling, general and administrative expenses incurred by the Group during the year under review was approximately HK$784,431,000, representing in aggregate approximately 58.1% of the total sales revenue, of which, total selling and distribution expenses were approximately HK$691,984,000, representing in aggregate approximately 51.3% of total sales revenue. Administrative expenses were approximately HK$92,447,000, out of which approximately HK$36,376,000 was incurred as equity settled share award and share option expenses.

BUSINESS REVIEW

The growth of the facial mask industry is higher than the traditional skincare products industry over the past three years. According to a report prepared by Kantar Worldpanel Limited, a subsidiary of CTR Market Research Company Limited ("**CTR Report**"), the facial masks industry achieved an annual growth rate of 29.0% (2010: 29.0% and 2009: 28.0%) in 2011 as compared to growth rate of the skincare products industry of 19.0% (2010: 13.0% and 2009: 15.0%) in China. Given a relatively low penetration rate of 29.7% (2010: 23.1% and 2009: 17.7%) among other more matured health and personal care product categories, the growth rate of the facial mask industry in China has consistently remained at a relatively high level which benefited the Group to achieve encouraging results through the predetermined strategies and also built up a solid foundation for long term healthy and sustainable growth in the future.

Brand Building and Marketing

According to the CTR Report, the market share of our MG Brand in the Chinese facial mask market not only maintained at a leading position but the percentage increased every year from 15.1% in 2009 to 16.8% in 2010 and to 18.5% in 2011. The brand awareness of our MG Brand has been the highest in the facial mask industry since 2010. When most of the consumers see our MG Brand, they will automatically think of facial masks, evidenced by the leading position of MG Brand in the industry in China. With the consumers' growing in-depth recognition for facial masks skincare functionalities and their leisure beauty experience values, facial masks are becoming an independent skincare product category, while the professional values and leisure beauty values of MG Brand are gaining more recognition by the consumers. 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 industry for future competition purposes. We will also continue to strive for strengthening brand awareness by our intensive brand marketing activities.

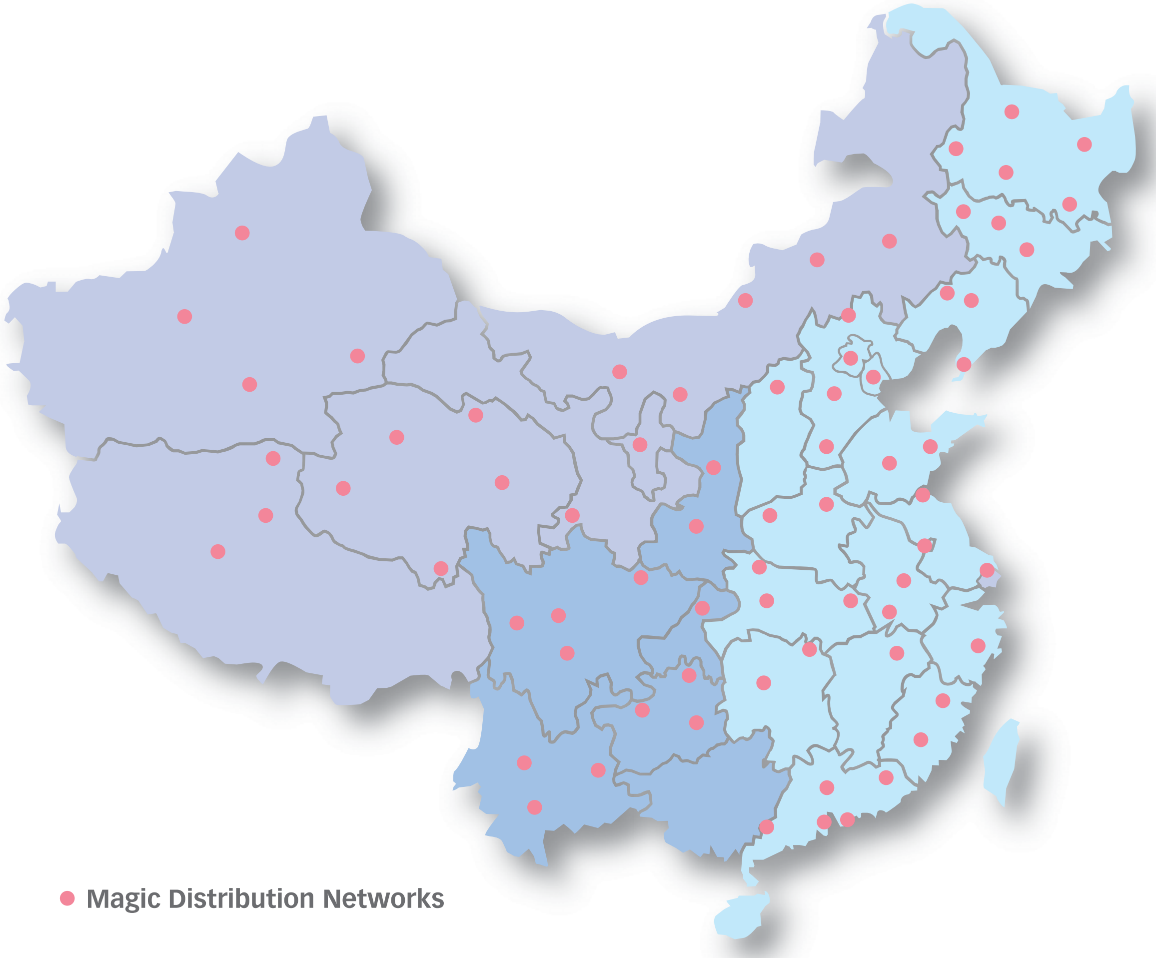
We recognize the importance of building brand awareness and good reputation for consumable products like facial masks in a fast moving environment where market shares are not concentrated with a few brands, and therefore we have been focusing on both above-the-line and below-the-line marketing strategies. We have commissioned Ogilvy & Mather Advertising, as our advertising partner, to build, manage and promote our MG Brand through a series of all-dimensional above-the-line marketing strategies which include advertisement on television, metro, magazines, FocusMedia Terminal Hypermarkets, displays in office buildings and VisionChina's public bus videos with significant advertising effects. The first city that we applied the above-the-line marketing strategy was Beijing back in 2010. We will replicate and apply the successful Beijing model to each of the higher tier cities or regions in China one by one in order for our MG Brand to deeply penetrate into each of these higher tier cities or regions. Increase in awareness in higher tier cities initially would benefit our MG Brand's penetration into lower tier cities. Once a brand is highly recognized by consumers in higher tier cities, it will be easily accepted and recognized by consumers in the lower tier cities. In respect of the below-the-line marketing strategy, we have commissioned OgilvyAction to provide advice on organizing the promotion activities in retail stores, designing displays for in-store MG Brand products, and the training on selling skills of our in-store sales promoters. Besides commissioning Ogilvy & Mather Advertising and Action, we have also commenced the internet-based promotional activities, and have commissioned OgilvyInteractive as our important

partner to promote our MG Brand on the internet. These marketing strategies have been successful and effective which is best evidenced by our MG Brand's market share, brand awareness and also the response of the consumers.

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 awareness of consumers. At the same time, we believe that such activities has enabled MG Brand to move further ahead from a market share leading brand to a comprehensive leading brand, and has also played an important role in promoting the overall development of facial masks products and the industry.

Optimization and Expansion of Distribution Networks

During the year ended 30 June 2012, we continued our predetermined strategies on optimization and expansion of distribution networks through modification of the products mix. We negotiated the design of our MG Brand products display at the point of sales and size of shelf space with the headquarter of point of sales in different sales channel in higher tier cities, and also increased the number of point of sales with high quality shop management and location in the lower tier cities. Besides optimization of the modernized sales channels in higher tier cities, in the financial year ended 2012, we further expanded our distribution networks by developing different type of sales channels, mainly for the convenience stores in the Central Business District of Beijing and Shanghai. The development of the convenience store sales channel is to further characterize facial mask products as fast-moving consumer goods so that facial mask products can be more convenient for the consumers to purchase. In addition, we are looking for opportunities to introduce our MG Brand into different sales channels, such as maternity specialty stores and over-the-counter drug stores where previously we had limited exposure. The change of consumers' purchase habit, especially for youngsters, is important as we expect the growth of our sales from on-line retail shops would increase steadily in the coming years so that we will also focus on the development of E-commerce in addition to the physical stores. As mentioned earlier, we have developed and deployed a number of the skincare specialty stores with selection of high quality shop management and location in lower tier cities. The implementation of these strategies not only enables the Group to further strengthen its distribution networks, but also increases the market coverage of our MG Brand horizontally and vertically in China. More importantly, such implementation also helps to promote the brand awareness of MG Brand.



As at 30 June 2012, we had 261 distributors (174 distributors as at 30 June 2011) and the number of terminal stores coverage was 10,184 (6,264 stores as at 30 June 2011), representing a net increase of 3,920 new stores for the year. Among the total new stores, the increase was partly attributable to new shop openings through the established sales channels in higher tier cities as well as further development of certain well-qualified medium and small-sized supermarkets and hypermarkets. During the year ended 30 June 2012, personal healthcare product chain stores increased from 872 to 1,190 stores, and new stores in supermarket and hypermarkets increased from 2,777 to 3,855 stores. The number of our skincare specialty stores in the third and fourth tier cities increased from 2,615 stores to 3,575 stores. We also developed 1,564 convenient stores which are mainly located in Beijing and Shanghai.

The smooth development of sales channel expansion is of significant importance. On one hand, the new stores contributed considerable sales revenue to the Group, which represented approximately 50% of the overall growth of sales revenue during the year ended 30 June 2012. On the other hand, with the expansion of our distribution networks and terminal stores, we were able to access to a wider population, enabling consumers to purchase MG Brand more conveniently, especially for the consumers in the lower tier cities. We believed, the optimization and expansion of distribution networks will make great contribution to the growth of facial mask industry as well as improving the brand awareness of MG Brand, which can also establish a solid foundation for the Group to introduce other brands and businesses in future. Furthermore, the continuous expansion of our distribution networks will enable us to capture opportunities arising from future competition as our distribution strength will build a harder entry barrier for competitors.

In line with our fast growing number of new terminal stores, as mentioned previously, we also optimized the operation of the original terminal stores, which helped to record such sound operating results as an increase of approximately 21.3% in sales as compared to the same period last year. Such results represented approximately 50% of our overall growth of sales revenue for the year.

While achieving sound results in both the development of new stores and higher sales from original terminal stores, we further optimized the structure of sales channels according to our predetermined strategies. During the year ended 30 June 2012, personal healthcare chain stores achieved a steady growth in sales revenue. Sales revenue of supermarkets and hypermarkets (including convenience stores) achieved obvious and rapid growth. Our skincare specialty stores in the lower tier cities continued with robust growth in sales revenue. More obviously our E-commerce sales channels demonstrated a strong growth potential and an increasing contribution to our overall sales revenue.

New Products Offerings

Our MG Brand has consistently enriched its product portfolios by introducing new products with different characteristics in response towards frequent changes in demand of the facial mask industry. Currently our MG Brand carries over 170 types of peel-off and wash-off facial mask products within a range of 13 product series. During the year ended 30 June 2012, peel-off facial mask products (including eye masks) and wash-off facial mask products accounted for approximately 90.2% and approximately 9.4% of our total sales, respectively. Our MG Brand will primarily launch mid to high end facial mask products with higher retail price and profit margin in order to stabilize the overall gross margin and broaden our customer base by capturing more upscale customers with higher purchasing power. In January 2012, we have launched two new mid to high end wash-off facial mask series under our MG Brand, namely Password For Beauty and Mineral Mud Deep Cleansing. Under the Password For Beauty series, there are eight different types of products, namely, MG Silk Protein Mask, MG Royal Jelly Mask, MG Shea Butter Mask, Blue-water Collagen Mask, MG Snow Lotus Mask, MG Snow Fungus and Bird's Nest Mask, MG Caviar Extract Mask, MG Pearl and Honey Mask. Under the Mineral Mud Deep Cleansing series, there are four types of products, namely, MG Ocean Mineral Clay Mask, MG Flower Clay Mask, MG Active Carbon Mask, and MG Volcano Clay Mask. The retail prices for Password For Beauty and Mineral Mud Deep Cleansing series are RMB63 and RMB72 respectively. These new wash-off facial mask products are initially sold through personal healthcare chain stores. Despite a short period of sales record during the year ended 30 June 2012, they have achieved sound consumers responses with contribution of approximately 1.24% of total sales revenue for the year ended 30 June 2012. While the above new products had enlarged the MG Brand portfolios, they had also provided more comprehensive choices to cater for different consumers' demand.

During the year ended 30 June 2012, sales of other mid to high end peel-off facial masks series, like Forever Silky, Chinese Herbal Skincare, and Spring, accounted for approximately 9.0%, approximately 9.0% and approximately 5.7% of our total sales, respectively, with approximately 23.7% in aggregate. The sales contribution by these mid to high end products maintained a stable sales growth which stabilize the overall gross profit margin and broadened our customers' base to premier customers with higher purchasing power in recognizing MG Brand as a professional brand in the facial masks industry.

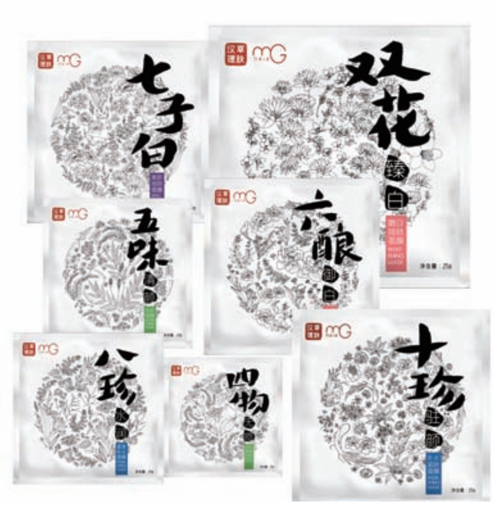
Multi-Brand and Multi-Category Development

While sustaining our rapid growth of the MG Brand as our core business, we have continued our effort in developing the multi-brand and multi-category strategy in other skincare product brands over the year in order to develop a path for our future growing points other than the contribution from our MG Brand facial mask products.

The skincare products industry maintained a faster growth in recent years. With the continuing urbanization in China, the higher standard of living and the desire for beauty by the female consumers, it is expected that the skincare product industry will continue with its stable growth in the future. With the continuous rapid development of the economy of China, individual income and consumption standard will further improve. With a growing attention to personal appearance, we expect that the skincare product industry in China will maintain a faster development pace in future. In addition, the skincare product industry have not yet been monopolized by a few brands due to the vast geographical locations, sophisticated municipal standards, extensive consumption and sales channels in China so that opportunities for skincare industry still exist as the industry is not in a concentrated environment. We believe that the future skincare product industry will have ample market development dimensions and opportunities so that we will develop more skincare brands as our long term development and growing points while optimizing our core facial mask business. We are thoroughly aware that the skincare product industry requires distinct business strategies and has distinct competition environment compared to the facial mask industry. Thus, we must adopt a prudent and stable attitude towards the development of other skincare product brands, and before launching any new brands, provide evidence to potential opportunities by brainstorming, verification, products testing and marketing.

Strategically, we have considered launching brands with different kinds of skincare products to be used before and after the application of facial masks so that different brands and different products under our company will have a synergy effect. Other than our own Keep Up Brand skincare products introduced in June of 2011 that we have commissioned Hanbul Cosmetics Company Limited ("**Hanbul**"), our Korean joint venture partner, to label and process, we have planned to launch our first brand Individual Care System ("**ICS Brand**") from

Hanbul under the joint venture later this year. Both Keep Up Brand and ICS Brand will also be selling through our distribution networks mainly in skincare specialty stores as well as E-commerce sales channels in China. Hanbul has over 20 years of extensive experience in the skincare and cosmetic products industry. By co-operating with Hanbul, we are able to enhance our capabilities in product research and development, production and quality control. The entry into the joint venture agreement signifies an important and solid step that we are moving towards the multi-brand and multi-category development strategies of its skincare and cosmetic product areas.



Stringent 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", "Regulations Concerning the Hygiene Supervision Over Cosmetics", "Standardization Law", "Regulations on the Administration of Production License for Industrial Products" as production guidelines. We take proactive moves in knowing new trends and 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 creditability of the Group and consumers' confidence in our products. All raw materials delivered to our production facilities will be tested thoroughly before the production. We also have a practice of retaining samples of each batch of essence ingredients, semi-finished products and finished products for future testing. These samples are kept for at least three years, sufficiently covering the intended shelf life of the finished products.

FUTURE PROSPECTS

Looking forward, we believe the growth of the facial mask industry will continue to be driven by the increasing number of facial mask users and more frequent use of facial masks. Therefore, we will continue our commitment to develop our facial mask products and focus on our predetermined strategies to strengthen our facial masks products under our MG Brand.

Also, we have a clear mind that the facial mask industry has developed from its infant stage to its fast growing stage, attracting more market players with stronger competitive advantages which will bring about market competition more fierce and crucial than the past. We expected a market consolidation and competition reshuffle will happen in the coming two to three years, and the concentration level of the facial mask market will be further improved thereafter, and a new market landscape will be fundamentally established. With a view to completely maintain the leading position of our core business, we will consolidate the business base of our long-term development which will translate into the long-term benefits for our shareholders. We will aggressively acquire more market shares and further increase the brand awareness of our MG Brand through both above-the-line and below-the-line marketing strategies through more proactive market actions and more resources allocation.

We believe that the product brand is the core key to the future competition. By capitalizing on thorough research and study of the facial mask products over the years, we have an in-depth understanding about the special skincare values and pleasant experience provided by such products to the consumers. Thus, we have established our leading product's unique brand notion of "Relax and enjoy beauty". In future, we will allocate more resources to promote the notion of MG Brand to a wider range of consumers and deepen their understanding of our products. We will continue our close cooperation with many professional consultation firms, and methodically arrange the deployment of such traditional media advertisement as television, newspaper and magazines, and outdoor advertising in reference to previous successful experience. Meanwhile, in response towards changes of consumers' habit of media exposure, we will focus more on areas such as the internet and public relations in order to improve consumers' experience and interaction with our MG Brand. We are confident that more consumers will have a growing recognition to the effective skincare treatment of MG Brand and increase width and depth of our MG Brand promotion. By doing so, we will promote our brand awareness, reputation, and consumer loyalty of our MG Brand.

We have preliminarily established a basic distribution system that covers personal skincare chain stores, supermarkets and hypermarkets, skincare specialty stores, and E-commerce channels. Based on this, we will continue to focus on the promotion and expansion of our distribution networks in terms of the number of terminal stores and coverage under the lower tier cities. In parallel with constant expansion of terminal stores, we emphasize more on the quality development of terminal stores. We will endeavor to foster strategic cooperation with sales channel providers on the management of facial mask products in hope for better display positions, larger display areas, and more brand specialty counters in the terminal stores. Coupled with a wider coverage of shopping guides at the terminal stores and improved professionalism, we will adjust the incentive-based Key Performance Indicator to enhance the customers' loyalty of our MG Brand in their shopping experience and increase the output of a single store.

Furthermore, in view of a growing popularity of facial mask products, we will optimize the research on consumers' needs and technology development of facial mask products under our MG Brand, and launch new products on a timely basis. Finally, we will focus on the development of a successful model for our skincare business segment through brainstorming, verification, products testing and marketing in order to set a solid foundation for the long-term healthy and sustainable growth for the Group.

The Group had maintained a rapid growth with a CAGR of sales revenue of approximately 53.3% from financial year 2009 to 2012 and a milestone for the Group achieving RMB1 billion sales revenue for the year. To succeed in maintaining a rapid growth in sales revenue, it also means that we must concurrently improve our internal management systems (comprising our human management system, operational management and financial management systems), organization, formality, and mechanism, while enhancing our integrated competency in supporting our stable and healthy growth in the long run. We will continue to improve our internal management systems through collaboration with a team of external professional parties and advisers. Training of our staff will also enable us to improve our professional knowledge on the industry and corporate culture, and optimize the internal management systems of the Group for ongoing improvement in operational management.

Looking ahead, we anticipate the stable and ongoing development of our Group will successfully continue to generate values and returns for our shareholders through the thorough development of our brand management and distribution networks, solid experience in multi-brand and multi-category management, and ongoing optimization of group organization and operational management.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2012, the Group had unpledged cash and bank balances of approximately HK$1,104,202,000 (2011: approximately HK$975,404,000). The gearing ratio for the Group was 0% (2011: 0%) as the Group had no outstanding bank borrowing as at 30 June 2012 (2011 outstanding bank loan: Nil). Net current assets were approximately HK$1,365,951,000 (2011: approximately HK$1,167,039,000) and current ratio was maintained at a healthy level of approximately 11.9 (2011: approximately 12.3) as at 30 June 2012.

The Group has no finance costs incurred during the year as there is no bank borrowing during the year (2011: approximately HK$0).

COMMITMENTS

As at 30 June 2012, the Group had contracted commitments of approximately HK$1,834,000 (30 June 2011: HK$28,856,000).

CONTINGENT LIABILITIES

As at 30 June 2012, the Group did not have any significant contingent liabilities (30 June 2011: Nil).

BANK BORROWINGS

As at 30 June 2012, the Group had no outstanding bank loans (30 June 2011: Nil).

SEASONAL OR CYCLICAL FACTORS

During the year ended 30 June 2012, the Group's business operations were not significantly affected by any seasonal or cyclical factors.

FOREIGN EXCHANGE EXPOSURE

During the year ended 30 June 2012, 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 2012, the Group generally financed its operations with internally generated resources. The Group placed these resources into interest-bearing bank accounts opened with banks in China, Hong Kong, and Macau, and earned interest in accordance with the China, Hong Kong and Macau bank interest rates. Bank deposits were mainly denominated in Renminbi and Hong Kong Dollars.

EMPLOYEES, TRAINING AND REMUNERATION POLICIES

As at 30 June 2012, the Group had a total of 3,930 workforces, including the workforces under the Group's employment and those supplied by a workforces solution provider ("**the Provider**") (2011: 2,364), of whom 3,925 were based in China, 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 and amount paid to the Provider amounted to a total of approximately HK$175,373,000 (2011: approximately HK$99,277,000). Such costs accounted for 13.0% of the Group's sales revenue (2011: 10.4%) during the year ended 30 June 2012. The increase of such costs in the year ended 30 June 2012 was mainly attributable to the increase in number of workforces and their wages and salaries, as well as the equity settled share award and share option expenses of approximately HK$36,376,000 (2011: HK$13,316,000). The Group participated in retirement benefit schemes for its staff both in Hong Kong and China.

The Group has developed its training programs in a structured and systematic manner for its directors, senior management and employees. The Group provided regular directors, senior management and employee with technical related courses during the year ended 30 June 2012.

DIRECTORS

Executive Directors

***Mr. Tang Siu Kun, Stephen* (鄧紹坤)**, aged 47, 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 55, 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 Group Limited. 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.

Mr. Zhang Kun Mou (張昆謀), aged 49, 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 41, 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.

Mr. Cheng Wing Hong (鄭永康), aged 38, is a member of the Hong Kong Institute of Certified Public Accountants. Mr. Cheng holds a master degree in Practising Accounting from the Monash University and a bachelor degree in Finance and International Business from the University of Hawaii at Manoa. Mr. Cheng has over 15 years of experience in company secretarial work, auditing, accounting, and financial management. Mr. Cheng has joined the Group as company secretary of the Company since May 2011. Mr. Cheng has been appointed as executive Director with effect from 1 July 2012 and remains as the Company Secretary of the Company.

Non-executive Director

Mr. Sun Yan (孫焱), aged 50, 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.

Mr. Chen Dar Cin (陳達信), aged 46, has 22 years of experience in the private equity and banking industries in Asia and the United States, and is currently a managing director of Baring Private Equity Asia Limited. Prior to joining Baring Private Equity Asia Limited in 2002, Mr. Chen served as an associate director at Prudential Asset Management Asia Limited in Hong Kong and prior to that worked for Bank of America in the United States and Hong Kong. His last position with Bank of America was Principal of Project Finance. Mr. Chen received a Bachelor of Arts in Economics from the University of California Berkeley in 1990. Mr. Chen has been appointed as a non-executive Director with effect from 1 July 2012.

Independent non-executive Directors

Professor Dong Yin Mao (董銀卯), aged 49, 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.

Professor Yang Rude (楊汝德), aged 66, 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 over 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 was an executive of the Association of Microbiology of China (中國微生物學會) two terms. Currently, he is still working in the postgraduate school of South China University of Technology (華南理工大學). He is also a Honorary President of Association of Microbiology of Guangdong Province (廣東省微生物學會) and as an evaluation expert in National Science and Technology Award (國家科學技術獎勵).

Mr. Yan Kam Tong (甄錦棠), aged 48, is an independent non-executive Director of the Company appointed on 6 September 2010. Mr. Yan graduated with 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 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 over ten years experience in the areas of finance, operation and compliance in various asset management companies licensed under the SFO.

Senior Management

Mr. Feng Hong (馮洪), aged 52, 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 36, 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.

Ms. Lu Min (盧敏), aged 47, 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. Zeng Hui (曾暉), aged 42, 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 1992, and has extensive experience in sales and marketing.

Ms. Wen Yan Juan (溫燕娟), aged 51, 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 39, 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 46, 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 31, 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 obtained a master degree in business administration from the School of Management of Lanzhou University (蘭州大學管理學院) in 2012.

Ms. Wu Xiao Qing (吳小青), aged 41, is the manager of marketing and promotion department of the Group. Ms. Wu joined the Group in 2005 when the Group was founded, and is the spouse of Mr. She Yu Yuan, an executive Director. Ms. Wu graduated from Guangdong Radio and TV University (廣東廣播電視大學) in 1994 with a major in Chinese Language and Literature and obtained a research diploma in Integrated Marketing from Sun Yat-Sen University (中山大學) in 2011. She has over twelve years experience in sales and marketing.

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 2012.

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 China. 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 2012.

RESULTS

The Group's profit for the year ended 30 June 2012 and its state of affairs as at 30 June 2012 are set out in the financial statements on pages 52 to 122.

FINAL DIVIDEND

At a meeting of the Board held on 17 September 2012, the Directors recommended the payment of a final dividend of HK3.6 cents per share for the year totalling approximately HK$36,320,000 to the shareholders of the Company whose names appear on the register of members of the Company on 21 December 2012, subject to the approval of the shareholders of the Company in the Company's forthcoming Annual General Meeting. The final dividend will be paid on 28 January 2013, if the relevant resolutions have been passed at the forthcoming Annual General Meeting.

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 2012, 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 2012 *HK$ million*	Balance as at 30 June 2012 *HK$ million*
Promotion & Marketing Efforts	182	246	246	—
Establishing New Plant in Guangzhou & Purchasing New Equipments	130	176	79	97
Developing New Series Facial Masks & Skincare Products and Improving the functionality of existing products	104	141	141	—
Distribution & Promotion Costs for products under Joint Venture with Hanbul	52	70	23	47
Working Capital for daily operation of the Company & other corporate purposes	52	70	70	—
	520	703	559	144

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 pages 123 to 124 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 2012 are set out in note 14 to the financial statements.

SHARE CAPITAL, SHARE AWARD PLAN AND SHARE OPTION SCHEME

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

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.

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 during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 30 June 2012 are set out in note 28(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 30 June 2012, 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$724,593,000, of which HK$36,320,000 has been proposed as final dividend for the year after the reporting period. The amount of HK$724,593,000 includes the Company's share premium account and capital reserve of HK$715,234,000 in aggregate at 30 June 2012, 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 2012, the Group did not have any donation for charitable and other donations (2011: RMB2,000,000 and HK$1,000,000).

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 30 June 2012, sales to the Group's largest and five largest customers accounted for approximately 17.9% and 45.5% (2011: 16.7% and 56.6% respectively) of the total sales for the Year respectively. Purchases from the Group's largest and five largest suppliers accounted for approximately 17.8% and 61.3% (2011: 25.5% and 68.9% 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.

DIRECTORS

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

Executive Directors:

Mr. Tang Siu Kun Stephen
Mr. She Yu Yuan
Mr. Luo Yao Wen
Mr. Cheng Wing Hong (appointed on 1 July 2012)
Mr. Zhang Kun Mou (resigned on 30 June 2012)
Mr. Chen Lei (resigned on 30 June 2012)

Non-executive Directors:

Mr. Sun Yan
Mr. Chen Dar Cin (appointed on 1 July 2012)

Independent non-executive Directors:

Mr. Yan Kam Tong
Professor Dong Yin Mao
Professor Yang Rude

In accordance with Article 105(A) of the Articles of Association, each of Mr. She Yu Yuan, Mr. Luo Yao Wen and Mr. Sun Yan shall retire from office by rotation at the forthcoming Annual General Meeting and, being eligible, will offer himself for re-election at the forthcoming Annual General Meeting.

Each of Mr. Chen Dar Cin and Mr. Cheng Wing Hong was appointed by the Board as an additional Director pursuant to Article 109 of the Articles of Association on 1 July 2012. Each of them shall hold office only until the next following general meeting and shall then be eligible and will offer himself for re-election at the forthcoming Annual General Meeting.

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 21 to 24 of this report.

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. Mr. Cheng Wing Hong has been appointed for an initial term of 3 years commencing from 1 July 2012, 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.

The independent non-executive Directors and non-executive Directors 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 note 33 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 2012 or at any time during the year ended 30 June 2012.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed in the section "Share Option Scheme" below, at no time during the year ended 30 June 2012 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.

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

As at 30 June 2012, 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	5,134,580 Ordinary shares (L)	0.51%
	The Company	Interest of controlled corporations *(Note 2)*	90,394,071 Ordinary shares (L)	8.96%
	The Company	Grantee under the share award plan *(Note 3)*	3,209,370 Ordinary shares (L)	0.32%
Mr. She Yu Yuan ("**Mr. She**")	The Company	Beneficial owner	123,863,066 Ordinary shares (L)	12.28%
	The Company	Grantee under the share award plan *(Note 3)*	4,153,302 Ordinary shares (L)	0.41%
	The Company	Interest of spouse	1,222,613 Ordinary shares (L)	0.12%

Name of Director	Name of Group member/associated corporation	Capacity	Number and class of securities *(Note 1)*	Approximate percentage of shareholding
Mr. Luo Yao Wen ("**Mr. Luo**")	The Company	Beneficial owner	38,223,587 Ordinary shares (L)	3.79%
	The Company	Grantee under the share award plan *(Note 3)*	1,279,553 Ordinary shares (L)	0.13%
	The Company	Interest of spouse	1,531,689 Ordinary shares (L)	0.15%
Mr. Tang and Mr. She	The Company	Trustee *(Note 4)*	27,937,158 Ordinary shares (L)	2.77%
Professor Dong Yin Mao ("**Professor Dong**")	The Company	Beneficial owner	310,000 Ordinary shares (L)	0.03%
Professor Yang Rude ("**Professor Yang**")	The Company	Beneficial owner	360,000 Ordinary shares (L)	0.04%
	The Company	Grantee under the share option scheme *(Note 5)*	160,000 Ordinary shares (L)	0.02%
Mr. Yan Kam Tong ("**Mr. Yan**")	The Company	Beneficial owner	360,000 Ordinary shares (L)	0.04%
	The Company	Grantee under the share option scheme *(Note 5)*	360,000 Ordinary shares (L)	0.04%
Mr. Sun Yan ("**Mr. Sun**")	The Company	Beneficial owner	360,000 Ordinary shares (L)	0.04%
	The Company	Grantee under the share option scheme *(Note 5)*	360,000 Ordinary shares (L)	0.04%

Notes:

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

2. Among these shares, 63,301,170 Shares were held through MG Company Limited, a company wholly-owned by Mr. Tang, and 27,092,901 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 30 June 2012, 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.

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

As at 30 June 2012, 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	100,167,085 (L)	Beneficial owner	10.00%
Hua Han Bio-Pharmaceutical Holdings Limited *(Note 2)*	100,167,085 (L)	Interest in controlled corporation	10.00%
Wu Xiao Qing *(Note 3)*	151,800,224 (L) 1,222,613 (L) 671,241 (L)	Interest of spouse Beneficial owner Grantee under the Share award Plan *(Note 4)*	15.05% 0.12% 0.07%
MG Company Limited *(Note 5)*	63,301,170 (L)	Beneficial owner	6.27%
Ho Ching Han *(Note 6)*	123,465,809 (L)	Interest of spouse	12.24%
Atlantis Capital Holdings Limited	109,271,938 (L)	Interest of controlled corporation	10.91%
Liu Yang *(Note 7)*	109,271,938 (L)	Interest of controlled corporation	10.91%
Riverwood Asset Management (Cayman) Limited	48,008,545 (L)	Investment manager	5.75%
Salata Jean Eric *(Note 8)*	152,174,000 (L)	Interest of controlled corporation	15.09%
Baring Private Equity Asia GP V Limited *(Note 8)*	152,174,000 (L)	Interest of controlled corporation	15.09%
Baring Private Equity Asia GP V LP *(Note 8)*	152,174,000 (L)	Interest of controlled corporation	15.09%
Baring Private Equity Asia V Holding (1) Limited *(Note 8)*	152,174,000 (L)	Beneficial owner	15.09%
The Baring Asia Private Equity Fund V LP *(Note 8)*	152,174,000 (L)	Interest of controlled corporation	15.09%

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 Mr. She 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. Baring Private Equity Asia GP V Limited is the general partner of a limited partnership (Baring Private Equity Asia GP V LP), which is the general partner of another limited partnership (The Baring Asia Private Equity Fund V LP), which is one of the limited liability partnerships comprising The Baring Asia Private Equity Fund V and which controls more than one-third of the issued shares in Baring Private Equity Asia V Holding (1) Limited. Jean Eric Salata is the sole shareholder of Baring Private Equity Asia GP V LP. Each of Baring Private Equity Asia GP V Limited and Jean Eric Salata is therefore deemed to be interested in 152,174,000 Shares held by Baring Private Equity Asia V Holding (1) Limited. Jean Eric Salata disclaims beneficial ownership of such Shares, other than to the extent of his economic interest in such entities.

Save as disclosed above, as at 30 June 2012, 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.

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 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 30 June 2012, 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 7.93% of the issued share capital of the Company as at 30 June 2012 and up to the date of this report.

The fair value of the above 36,000,000 share options was estimated at approximately HK$13,609,000, further details are set out in note 27 to the financial statements.

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.

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 year ended 30 June 2012:

	Number of share options										
Grantee	As at 1 July 2011	Granted during the Year	Adjusted during the Year *(Note (a))*	Exercised during the Year	Cancelled/ Lapsed during the Year	As at 30 June 2012	Date of grant of share options	Exercise period of share options	Exercise price of share options per share	Adjusted exercise price of share options per share *(Note (a))*	Adjusted closing price per share before date on which the share options were granted *(Note (b))*
Directors											
Professor Dong	—	300,000	60,000	360,000	—	—	27 September 2011	27 September 2011– 26 September 2013	HK$2.432	HK$2.027	HK$1.69
Professor Yang	—	300,000	60,000	200,000	—	160,000	27 September 2011	27 September 2011– 26 September 2013	HK$2.432	HK$2.027	HK$1.69
Mr. Yan	—	300,000	60,000	—	—	360,000	27 September 2011	27 September 2011– 26 September 2013	HK$2.432	HK$2.027	HK$1.69
Mr. Sun	—	300,000	60,000	—	—	360,000	27 September 2011	27 September 2011– 26 September 2013	HK$2.432	HK$2.027	HK$1.69
Other employees (In aggregate)	—	15,800,000	3,160,000	6,450,000	—	12,510,000	27 September 2011	27 September 2011– 26 September 2013	HK$2.432	HK$2.027	HK$1.69
Others (In aggregate)	—	13,000,000	2,600,000	—	—	15,600,000	27 September 2011	27 September 2011– 26 September 2013	HK$2.432	HK$2.027	HK$1.69
Total	—	30,000,000	6,000,000	7,010,000	—	28,990,000					

Note (a): This refers to the adjustment made to the exercise price and number of share options granted under the scheme on 27 September 2011 as a result of the bonus Issue of shares on the basis of 1 new ordinary share for every 5 existing ordinary shares for the year ended 30 June 2011 pursuant to a resolution passed on the annual general meeting held on 16 December 2011.

Note (b): This refers to the adjusted Stock Exchange closing price on the date immediately preceding the date of the grant of the share options, i.e. 26 September 2011 as a result of the bonus issue of shares on the basis of 1 new ordinary share for every 5 existing ordinary shares for the year ended 30 June 2011 pursuant to a resolution passed on the annual general meeting held on 16 December 2011.

CONTINUING CONNECTED TRANSACTIONS

The Group had entered into a number of transactions with party which was connected person of the Company under the Listing Rules. Details of such transactions are set out as follows:

Exclusive Distribution Agreement

Date: 3 September 2010

Parties: (1) 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

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 ended 30 June 2012

For the year ended 30 June 2012, the Group has not conducted any transaction under the Exclusive Distribution Agreement.

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 ended 30 June 2012

For the year ended 30 June 2012, there were transactions of HK$2,708,000 under the OEM Manufacturing Agreement.

Further details are set out in note 33 to the financial statements.

Related party transactions regarding the purchases of products from related party as disclosed in note 33 to the financial statements constituted continuing connected transactions under the Listing Rules which are required to be disclosed in this report in accordance with Chapter 14A of the Listing Rules.

The independent non-executive directors of the Company have reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

TRADEMARKS ASSIGNMENT

Pursuant to the trademarks assignment agreements entered into by the Group and Hanbul Cosmetics Cosmetics Co. Ltd. and one of the subsidiaries of Hanbul (together "**Hanbul Group**"), both dated 28 April 2011, certain trademarks of Hanbul Group 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 30 June 2012 and up to the date of this report, the trademarks assignments have not been completed.

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 2012.

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 Corporate Governance Code and Corporate Governance Report (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 42 to 49 of this Annual Report.

AUDIT COMMITTEE

The Board has established an audit committee (the "**Committee**") in accordance with the requirements of the code provisions of the Code. 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
17 September 2012

CORPORATE GOVERNANCE

During the year ended 30 June 2012, the Company has complied with all the code provisions ("**Code Provisions**") of the Code on Corporate Governance Practices, which was revised and renamed as Corporate Governance Code on 1 April 2012 (the "**Code**"), contained in Appendix 14 to the Listing Rules for the period from 1 July 2011 to 31 March 2012 and of the Corporate Governance Code for the period from 1 April 2012 to 30 June 2012.

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 during the year ended 30 June 2012 and up to the date of this report.

BOARD OF DIRECTORS

The Board is currently composed of four executive Directors comprising Mr. Tang Siu Kun Stephen as the Chairman, Mr. She Yu Yuan, Mr. Luo Yao Wen and Mr. Cheng Wing Hong; two non-executive Directors comprising Mr. Sun Yan and Mr. Chen Dar Cin; 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 21 to 24 of this report.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

In accordance with the Articles of Association, at least one-third of the Directors shall retire from office by rotation at each annual general meeting provided that every Director shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election. Any Director appointed to fill a casual vacancy or as an addition to the Board shall hold office only until the next following general meeting of the Company and shell then be eligible for re-election.

TERMS OF APPOINTMENT OF DIRECTORS

Each of Mr. Tang Siu Kun Stephen, Mr. She Yu Yuan and Mr. Luo Yao Wen and Mr. Cheng Wing Hong 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. Both of Mr. Zhang Kun Mou and Mr. Chen Lei has resigned on 30 June 2012 before the expiration of their terms of appointment. Each of Mr. Sun Yan and Mr. Chen Dar Cin is appointed as non-executive Director for an initial term of two years renewable automatically for successive terms of one year. Each of Mr. Yan Kam Tong, Professor Dong Yin Mao and Professor Yang Rude is appointed as independent non-executive Director for an initial term of two years renewable automatically for successive terms of one year.

BOARD COMMITTEE

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 and responsibilities as set out in Code Provision D.3.1. In addition, the Board has also established various Board committees, including the audit committee (the "**Audit Committee**") the remuneration committee (the "**Remuneration Committee**") on 6 September 2010 and the nomination committee (the "**Nomination Committee**") (together, the "**Board Committees**") on 28 February 2012 and has delegated various responsibilities to it while it will maintain its responsibility for the Company's corporate governance functions.

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. And the Directors had no financial, business, family or other material or relevant relationship with each other at 30 June 2012.

The attendance record for the Board meeting during the year ended 30 June 2012 is as follows:

Directors	Meetings Attended/ Number of Meetings Held
Executive Directors	
Mr. Tang Siu Kun, Stephen *(Chairman)*	7/7
Mr. She Yu Yuan	7/7
Mr. Luo Yao Wen	7/7
Mr. Zhang Kun Mou (resigned on 30 June 2012)	5/7
Mr. Chen Lei (resigned on 30 June 2012)	4/7
Non-executive Director	
Mr. Sun Yan	5/7
Independent Non-executive Directors	
Professor Dong Yin Mao	7/7
Professor Yang Rude	7/7
Mr. Yan Kam Tong	7/7

The attendance record for the general meeting during the year ended 30 June 2012 is as follows, subsequent to 1 April 2012 there is no general meeting held:

Directors	Meetings Attended/ Number of Meetings Held
Executive Directors	
Mr. Tang Siu Kun, Stephen	1/1
Mr. She Yu Yuan	1/1
Mr. Luo Yao Wen	1/1
Mr. Zhang Kun Mou (resigned on 30 June 2012)	0/1
Mr. Chen Lei (resigned on 30 June 2012)	0/1
Non-executive Director	
Mr. Sun Yan	0/1
Independent Non-executive Directors	
Professor Dong Yin Mao	0/1
Professor Yang Rude	0/1
Mr. Yan Kam Tong	0/1

NOMINATION COMMITTEE

The Nomination Committee was established on 28 February 2012 with specific written terms of reference in accordance with the requirements of the Code and is currently composed of five members, comprising two executive Directors, Mr. Tang Siu Kun Stephen (Chairman) and Mr. She Yu Yuan and three independent non-executive Directors, namely Professor Dong Yin Mao, Mr. Yan Kam Tong and Professor Yang Rude. They review regularly the structure, size and composition (including the skills, knowledge and experience) of the Board, and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy. The Board will then consider the candidates nominated by them for appointment as Directors.

During the year ended 30 June 2012, the Nomination Committee has reviewed the existing policy for the nomination of directors, the nomination procedures and the process and criteria and believes that they are fair and reasonable and is in the best interests of the shareholders of the Company as a whole.

The attendance record for the Committee's meeting during the year ended 30 June 2012 is as follows:

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

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 to the Board on the remuneration policies and packages for the Directors (including executive 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.

During the year ended 30 June 2012, the Remuneration Committee has reviewed the policy for the remuneration, performance and service contracts of the executive Directors and is in the view that the existing remuneration policy and package for the executive Directors are fair and reasonable and is in the best interests of the shareholders of the Company as a whole.

The attendance record for the Committee's meeting during the year ended 30 June 2012 is as follows:

Directors	Meetings Attended/ Number of Meetings Held
Independent Non-executive Directors	
Professor Dong Yin Mao *(Chairman)*	5/5
Professor Yang Rude	5/5
Mr. Yan Kam Tong	5/5
Executive Directors	
Mr. Tang Siu Kun Stephen	5/5
Mr. She Yu Yuan	4/5

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's 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.

During the year ended 30 June 2012, the Audit Committee has reviewed the half-yearly and annual results and internal control system of the Company and performed duties and responsibilities set out in C.3 (principles and code provisions) in Appendix 14 to the Listing Rules, including review on changes in accounting policies and practices, the going concern assumptions and any qualifications, compliance with accounting standards and compliance with the Listing Rules and other legal requirements in relation to financial reporting.

The attendance record for the Committee's meeting during the year ended 30 June 2012 is as follows:

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

CHAIRMAN AND CHIEF EXECUTIVE

The chairman is Mr. Tang Siu Kun, Stephen and chief executives are Mr. She Yu Yuan and Mr. Luo Yao Wen. The chairman is responsible for the management of the Board while the chief executives are responsible for the daily operation of the Company.

BUSINESS OBJECTIVES AND STRATEGIES

Through continuous efforts, expertise and creativity of our management team, the Company's objectives are to grow as a key player in facial mask and skincare industry while constantly striving to increase the returns of the Company's shareholders as a whole.

The Company looks for improving the Group's long term financial performance and avoids taking undue risks to make short term gains at the expense of long term objectives. The details of current and future development strategy are disclosed in the section "Management Discussion and Analysis" of this annual report.

INTERNAL CONTROL

The board is of the opinion that a sound internal control system will contribute to the effectiveness and efficiency of operations, the reliability of financial reporting and the Group's compliance with applicable laws and regulations and will assist the board in the management of any failure to achieve business objective.

Business plans and budgets are prepared annually by the management of each business unit and are subject to review and approval by the executive Directors of the Company. Plans and budgets are reviewed on a monthly basis to measure actual performance against the budget. When setting budgets and forecasts, management identifies, evaluates and reports on the likelihood and potential financial impact of significant business risks. Guidelines and procedures have been established for the approval and control of operating expenditures, capital expenditures and the unbudgeted expenditures and acquisitions.

The executive Directors of the Company review monthly management reports on the financial results and key operating statistics of each business unit and hold periodical meetings with the senior management of each business unit and the finance team to review these reports, discuss business performance against budgets, forecasts and market conditions, and to address accounting and finance related matters.

The Board is responsible for internal control of the Group and for reviewing its effectiveness. Procedures have been designed to safeguard assets against unauthorized use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for management use and for publication, and ensure compliance of applicable laws, rules and regulations. The procedures provide reasonable but not absolute assurance against material errors, losses or fraud.

During the year ended 30 June 2012, the Board has reviewed the effectiveness of the Group's internal control system and performed evaluation of the principles and controls of the Group's control environment, risk assessment, control activities, information and communication and monitoring so as to ensure that key business and operational risks are identified and managed. Significant findings on internal controls are reported to the Audit Committee every year. In doing so, the Board has considered the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

CORPORATE GOVERNANCE

The Board has carried out its duties and responsibilities as set out in D.3 in Appendix 14 to the Listing Rules including the development of policies and practices on corporate governance, monitoring the training and continuous professional development of Directors and senior management, reviewing the compliance with the Code, disclosure in this Corporate Governance Report and legal and regulatory requirements of the Company.

CONTINUOUS PROFESSIONAL DEVELOPMENT

All members of the Board have participated in continuous professional development through internal training provided by the Company on various areas including update on listing rules, corporate governance, duties and responsibilities of directors at the expense of the Company when necessary so as to ensure that they have appropriate understanding of the business and operations of the Group and that they are fully aware of the responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The training materials are prepared in accordance with the training seminars organized by professional bodies such as Hong Kong Institute of Certified Public Accountants.

The Company provides regular updates on changes and developments relating to the Group's business and the legislative and regulatory environments in which the Group conducts its business to the Directors.

REMUNERATION OF SENIOR MANAGEMENT

The remuneration of the members of the senior management by bands for the year ended 30 June 2012 is set out below:

	Number of senior management
Nil to HK$2,000,000	9

AUDITORS' REMUNERATIONS

During the year ended 30 June 2012, the remunerations paid or to be payable to Ernst & Young in respect of statutory audit services was HK$1,700,000 and non-audit services amounted to HK$30,000.

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 2012, the Directors have selected appropriate accounting policies and applied them consistently, and have prepared the financial statements on a going concern basis.

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.

There is no significant change in the Company's constitutional documents during the year ended 30 June 2012.

SHAREHOLDERS' RIGHTS

How Shareholders can convene an extraordinary general meeting and putting forward proposals at Shareholders' meetings

Pursuant to Article 64 of the Articles of Association, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company by mail at the Company's head office and principal place of business in Hong Kong, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company. The same requirement and procedure also applies to any proposal to be tabled at shareholders' meetings for adoption.

Procedures by which enquiries may be put to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the secretary of the Company by mail at the Company's head office and principal place of business in Hong Kong. The Company Secretary forwards communications relating to matters within the Board's purview to the Board and communications relating to ordinary business matters, such as suggestions, inquiries and consumer complaints, to the chief executives.

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.

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 52 to 122, which comprise the consolidated and company statements of financial position as at 30 June 2012, 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.

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' judgement, 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 2012, 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

22/F, CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong
17 September 2012

CONSOLIDATED INCOME STATEMENT

Year ended 30 June 2012

	Notes	2012 HK$'000	2011 HK$'000
REVENUE	6	**1,349,409**	957,322
Cost of sales		**(316,399)**	(221,572)
Gross profit		**1,033,010**	735,750
Other income and gains	6	**16,678**	14,507
Selling and distribution costs		**(691,984)**	(492,516)
Administrative expenses		**(92,447)**	(53,612)
Gain on derecognition of derivative financial instruments		**—**	5,100
PROFIT BEFORE TAX	7	**265,257**	209,229
Income tax expense	10	**(65,130)**	(49,075)
PROFIT FOR THE YEAR		**200,127**	160,154
Attributable to:			
Equity holders of the Company	11	**204,513**	160,523
Non-controlling interests		**(4,386)**	(369)
		200,127	160,154
			(Restated)
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	13		
Basic		**HK20.36 cents**	HK16.94 cents
Diluted		**HK20.23 cents**	HK16.94 cents

Details of the dividends are disclosed in note 12 to the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 30 June 2012

	2012 HK$'000	2011 HK$'000
PROFIT FOR THE YEAR	**200,127**	160,154
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	**13,937**	21,626
Income tax effect	**—**	—
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**13,937**	21,626
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**214,064**	181,780
Attributable to:		
Equity holders of the Company	**218,114**	181,910
Non-controlling interests	**(4,050)**	(130)
	214,064	181,780

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**32,344**	14,178
Prepaid land lease payments	15	**61,564**	—
Goodwill	16	**14,549**	15,772
Intangible asset	17	**20,445**	24,049
Deferred tax asset	18	**415**	1,283
Prepayments and deposits	22	**2,467**	41,723
Total non-current assets		**131,784**	97,005
CURRENT ASSETS			
Inventories	20	**26,967**	14,845
Trade receivables	21	**250,497**	181,248
Prepayments, deposits and other receivables	22	**109,010**	97,596
Tax recoverable		**895**	877
Cash and cash equivalents	23	**1,104,202**	975,404
Total current assets		**1,491,571**	1,269,970
CURRENT LIABILITIES			
Trade payables	24	**63,825**	45,401
Other payables and accruals	25	**37,797**	34,311
Tax payable		**23,998**	23,219
Total current liabilities		**125,620**	102,931
NET CURRENT ASSETS		**1,365,951**	1,167,039
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,497,735**	1,264,044
NON-CURRENT LIABILITIES			
Deferred tax liabilities	18	**5,111**	6,012
Net assets		**1,492,624**	1,258,032

30 June 2012

	Notes	2012 HK$'000	2011 HK$'000
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	*26*	**100,890**	83,491
Reserves	*28(a)*	**1,379,456**	1,158,213
		1,480,346	1,241,704
Non-controlling interests		**12,278**	16,328
Total equity		**1,492,624**	1,258,032

Tang Siu Kun, Stephen
Director

She Yu Yuan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 30 June 2012

	Attributable to equity holders of the Company											
	Issued capital *HK$'000*	Share premium account *HK$'000*	Share award reserve *HK$'000*	Share option reserve *HK$'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 2010 *(Note(a))*	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 Group Limited ("**Magic Holdings**") to share award trustees immediately 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 *(Notes 26(c) and 26(d)(ii))*	229	(229)	—	—	—	—	—	—	—	—	—	—
Allotment and issuance of 2,288,300 shares credited as fully paid on 6 September 2010 *(Note 26(d)(i))*	229	(229)	—	—	—	—	—	—	—	—	—	—
Exchange of shares upon group reorganisation	(179)	(39,122)	—	—	—	39,301	—	—	—	—	—	—
Capitalisation issues *(Note 26(e))*	59,542	(59,542)	—	—	—	—	—	—	—	—	—	—
Issue of shares *(Notes 26(f) and 26(g))*	23,000	736,000	—	—	—	—	—	—	—	759,000	—	759,000
Share issue expenses	—	(46,039)	—	—	—	—	—	—	—	(46,039)	—	(46,039)
2010 special dividend *(Note 12)*	—	(29,267)	—	—	—	—	—	—	—	(29,267)	—	(29,267)
Issuance of shares to settle 2010 special dividend *(Notes 12 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	—	—	—	—	—	—	—	—	—	—	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

	Attributable to equity holders of the Company											
	Issued capital HK$'000	Share premium account HK$'000	Share award reserve HK$'000	Share option reserve HK$'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 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 option expenses *(Note 27)*	—	—	—	13,609	—	—	—	—	—	13,609	—	13,609
Share award expenses *(Note 27)*	—	—	22,767	—	—	—	—	—	—	22,767	—	22,767
Bonus issue of shares *(Note 26)*	16,698	(16,698)	—	—	—	—	—	—	—	—	—	—
Shares issued upon exercise of share options *(Note 27)*	701	16,158	—	(2,650)	—	—	—	—	—	14,209	—	14,209
2011 final dividend declared and paid *(Note 12)*	—	(30,057)	—	—	—	—	—	—	—	(30,057)	—	(30,057)
Profit for the year	—	—	—	—	—	—	—	204,513	—	204,513	(4,386)	200,127
Other comprehensive income for the year: Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	—	13,601	13,601	336	13,937
At 30 June 2012	100,890	598,873*	47,352*	10,959*	4,757*	100,450*	15,315*	555,337*	46,413*	1,480,346	12,278	1,492,624

* *These reserve accounts comprise the consolidated reserves of HK$1,379,456,000 (2011: HK$1,158,213,000) in the consolidated statement of financial position.*

Notes:

(a) 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 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 during the year ended 30 June 2011.

(c) In accordance with the Company Law of the People's Republic of China (the "**PRC**"), certain of 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 2012

	Notes	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**265,257**	209,229
Adjustments for:			
Bank interest income	*6*	**(6,836)**	(1,875)
Depreciation	*7*	**2,845**	845
Amortisation of an intangible asset	*7*	**4,091**	3,915
Equity-settled share award expenses	*27*	**22,767**	13,316
Equity-settled share option expenses	*27*	**13,609**	—
Gain on derecognition of derivative financial instruments		**—**	(5,100)
Impairment of goodwill	*16*	**1,223**	—
		302,956	220,330
Increase in inventories		**(12,122)**	(6,304)
Increase in trade receivables		**(69,249)**	(69,660)
Increase in prepayments, deposits and other receivables		**(13,278)**	(6,112)
Increase in trade payables		**18,424**	15,943
Increase in other payables and accruals		**3,486**	10,567
Exchange realignment		**5,052**	20,465
Cash generated from operations		**235,269**	185,229
Bank interest received		**6,836**	1,875
Overseas tax paid		**(64,523)**	(39,224)
Net cash flows from operating activities		**177,582**	147,880
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease in amounts due from related parties, net		**—**	127,331
Purchases of items of property, plant and equipment	*14*	**(14,311)**	(10,608)
Increase in prepaid land lease payments		**(26,940)**	—
Deposits paid for acquisition of leasehold land and buildings		**—**	(28,025)
Acquisition of a subsidiary		**—**	(2,881)
Increase in non-pledged deposits with original maturity of over three months when acquired	*23*	**(2,422)**	(120,247)
Net cash flows used in investing activities		**(43,673)**	(34,430)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 30 June 2012

	Notes	2012 HK$'000	2011 HK$'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)
Proceeds from issuance of shares of the Company		**14,209**	759,000
Share issue expenses, net		—	(46,039)
Dividend paid		**(30,057)**	—
Net cash flows from/(used in) financing activities		**(15,848)**	692,232
NET INCREASE IN CASH AND CASH EQUIVALENTS		**118,061**	805,682
Cash and cash equivalents at beginning of year		**855,157**	49,475
Effect of foreign exchange rate changes, net		**8,315**	—
CASH AND CASH EQUIVALENTS AT END OF YEAR		**981,533**	855,157
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	**722,192**	842,168
Non-pledged time deposits with original maturity of over three months when acquired	23	**122,669**	120,247
Non-pledged time deposits with original maturity of less than three months when acquired	23	**259,341**	12,989
Cash and cash equivalents as stated in the consolidated statement of financial position		**1,104,202**	975,404
Less: Non-pledged time deposits with original maturity of over three months when acquired	23	**(122,669)**	(120,247)
Cash and cash equivalents as stated in the consolidated statement of cash flows		**981,533**	855,157

STATEMENT OF FINANCIAL POSITION

30 June 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	19	**116,540**	116,540
CURRENT ASSETS			
Amounts due from subsidiaries	19	**188,158**	180,670
Prepayments, deposits and other receivables	22	**1,845**	—
Cash and cash equivalents	23	**532,640**	545,634
Total current assets		**722,643**	726,304
CURRENT LIABILITIES			
Other payables and accruals	25	**2,741**	179
NET CURRENT ASSETS		**719,902**	726,125
Net assets		**836,442**	842,665
EQUITY			
Issued capital	26	**100,890**	83,491
Reserves	28(b)	**735,552**	759,174
Total equity		**836,442**	842,665

Tang Siu Kun, Stephen
Director

She Yu Yuan
Director

1. CORPORATE INFORMATION

Magic Holdings International Limited is a limited liability company incorporated in the Cayman Islands. The principal place of business of the Company is Suite 802, Sino Plaza, 255–257 Gloucester Road, Causeway Bay, Hong Kong. The Group was principally engaged in manufacture, sales and marketing of facial masks and other skincare products in Mainland China.

2.1 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 and applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). They have been prepared under the historical cost convention. 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

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 30 June 2012. 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.

Total comprehensive income within a subsidiary is 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 losses 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 profit or loss or retained profits, as appropriate.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following 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 — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*
HKAS 24 (Revised)	*Related Party Disclosures*
HK(IFRIC)-Int 14 *Amendments*	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKFRS 3, HKAS 1 and HKAS 27 included in *Improvements to HKFRSs 2010*, the adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these HKFRSs are as follows:

(a) HKAS 24 (Revised) *Related Party Disclosures*

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 33 to the consolidated financial statements.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

(b) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 3 *Business Combinations*: The amendment clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

  In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

  The amendment also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- HKAS 1 *Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

- HKAS 27 *Consolidated and Separate Financial Statements* : The amendment clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

2.3 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 — Government loan*[3]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities*[3]
HKFRS 9	*Financial Instruments*[5]
HKFRS 10	*Consolidated Financial Statement*[3]
HKFRS 11	*Joint Arrangements*[3]
HKFRS 12	*Disclosure of Interests in Other Entities*[3]
HKFRS 13	*Fair Value Measurement*[3]
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12: *Transition Guidance*[3]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income*[2]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Assets*[1]
HKAS 19 (2011)	*Employee Benefit*[3]
HKAS 27 (2011)	*Separate Financial Statements*[3]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[3]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities*[4]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[3]
Annual Improvements Project	*Annual Improvements to IFRSs 2009–2011 Cycle*[3]

1 Effective for annual periods beginning on or after 1 January 2012
2 Effective for annual periods beginning on or after 1 July 2012
3 Effective for annual periods beginning on or after 1 January 2013
4 Effective for annual periods beginning on or after 1 January 2014
5 Effective for annual periods beginning on or after 1 January 2015

The Company 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 Company'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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill

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 Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. 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.

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 the income statement or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

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 identifiable net 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 the income statement 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, 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 depreciates them accordingly.

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:

Buildings	2% to 5%
Plant and machinery	2% to 10%
Furniture, fixtures, equipment and motor vehicles	20% to 33%
Leasehold improvements	Over the shorter of the lease term and 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Research and development costs

All research and development costs are charged to the income statement as incurred.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessors are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. 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.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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, 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 the income statement in finance costs for loans and in other expenses for receivables.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the assets. When it 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 occurred after the initial recognition of the asset (an incurred "**loss event**") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

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 plus, in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include trade payables, and other payables and accruals.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when 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, when 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, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised, 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:

- when 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 (the "**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 that of 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. The fair value of the share options granted is determined by an external valuer using a binomial option pricing model, further details of which are given in note 27 to the consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions (continued)

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Employee benefits

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 arising on settlement or translation of monetary items 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 dates when the fair values were determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on item whose fair value gain or loss is recognised in other comprehensive income or the income statement is also recognised in other comprehensive income or the income statement, respectively).

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.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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.

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 period. 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 described 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.

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 2012 was HK$14,549,000 (2011: 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 the intangible asset. The recoverable amounts of the 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 2012 was HK$20,445,000 (2011: HK$24,049,000). More details are given in note 17 to the consolidated financial statements.

Valuation of share options

The fair value of options granted under the Scheme is determined using the binomial option pricing model. The significant inputs into the model were share price at the grant date, exercise price, risk-free interest rate, dividend yield, expected volatility and expected life of options. When the actual results of the inputs differ from the management's estimate, it will have impact on share option expenses and the related share option reserve of the Company. More details are given in note 27 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 manufacture and sale of facial masks and other skincare products, 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 is presented.

Information about major customers

	2012 HK$'000	2011 HK$'000
Customer A	241,445	157,080
Customer B	137,769	138,502
Customer C*	N/A	122,277
	379,214	417,859

* *Sales to customer C during the year ended 30 June 2012 amounted to less than 10% of the revenue. Accordingly, the sales amount was not presented in the above.*

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:

	2012 HK$'000	2011 HK$'000
Revenue		
Sale of goods	1,349,409	957,322
Other income and gains		
Bank interest income	6,836	1,875
Foreign exchange differences, net	9,842	12,632
	16,678	14,507
	1,366,087	971,829

7. PROFIT BEFORE TAX

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

	Notes	**2012** **HK$'000**	2011 HK$'000
Cost of inventories sold		**316,399**	221,572
Depreciation*	*14*	**2,845**	845
Amortisation of an intangible asset*	*17*	**4,091**	3,915
Minimum lease payments under operating leases on land and buildings		**5,102**	4,428
Auditors remuneration		**1,700**	1,600
Employee benefit expenses* (including directors' remuneration *(note 8)*)			
Wages and salaries		**57,799**	38,455
Retirement benefit scheme contributions		**5,409**	5,138
Equity-settled share award expenses	*27*	**22,767**	13,316
Equity-settled share option expenses	*27*	**7,737**	—
		93,712	56,909
Equity-settled share option expenses — others		**5,872**	—
Derecognition of derivative financial instruments		**—**	(5,100)
Impairment of goodwill**		**1,233**	—
Foreign exchange differences, net		**(9,842)**	(12,632)

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

	2012 **HK$'000**	2011 HK$'000
Depreciation	**945**	150
Amortisation of an intangible asset	**4,091**	3,915
Employee benefit expenses	**17,880**	12,060
	22,916	16,125

** *Impairment of goodwill is included in the "administrative expenses" on the face of the consolidated income statement.*

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2012 **HK$'000**	2011 HK$'000
Fees	**882**	702
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	**3,878**	3,665
Retirement benefit scheme contributions	**73**	52
Equity-settled share award expenses *(note 27)*	**20,447**	3,716
Equity-settled share option expenses *(note 27)*	**544**	—
	25,824	8,135

8. DIRECTORS' REMUNERATION (continued)

	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 (Note 27)	Equity-settled share option expenses HK$'000 (Note 27)	Total remuneration HK$'000
30 June 2012						
Executive directors:						
Mr. Tang Siu Kun Stephen ("**Mr. Tang**")	—	884	12	7,593	—	8,489
Mr. She Yu Yuan ("**Mr. She**")	—	1,669	22	9,827	—	11,518
Mr. Luo Yao Wen ("**Mr. Luo**")	—	1,325	39	3,027	—	4,391
Mr. Zhang Kun Mou ("**Mr. Zhang**") (resigned on 30 June 2012)	147	—	—	—	—	147
Mr. Chen Lei ("**Mr. Chen**") (resigned on 30 June 2012)	147	—	—	—	—	147
Non-executive director:						
Mr. Sun Yan ("**Mr. Sun**")	147	—	—	—	136	283
Independent non-executive directors:						
Mr. Yan Kam Tong ("**Mr. Yan**")	147	—	—	—	136	283
Prof. Dong Yin Mao ("**Prof. Dong**")	147	—	—	—	136	283
Prof. Yang Rude ("**Prof. Yang**")	147	—	—	—	136	283
	882	3,878	73	20,447	544	25,824

8. DIRECTORS' REMUNERATION (continued)

	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 (Note 27)	Equity-settled share option expenses HK$'000 (Note 27)	Total remuneration HK$'000
30 June 2011						
Executive directors:						
Mr. Tang	—	840	12	1,380	—	2,232
Mr. She	—	1,577	20	1,786	—	3,383
Mr. Luo	—	1,248	20	550	—	1,818
Mr. Zhang	117	—	—	—	—	117
Mr. Chen	117	—	—	—	—	117
Non-executive director:						
Mr. Sun	117	—	—	—	—	117
Independent non-executive directors:						
Mr. Yan	117	—	—	—	—	117
Prof. Dong	117	—	—	—	—	117
Prof. Yang	117	—	—	—	—	117
	702	3,665	52	3,716	—	8,135

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2011: three) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining two (2011: two) non-director, highest paid employees during the year are set out as follows:

	2012 HK$'000	2011 HK$'000
Salaries, allowances and benefits in kind	2,392	1,551
Retirement benefit scheme contributions	35	31
Equity-settled share award expenses	200	349
Equity-settled share option expenses	903	—
	3,530	1,931

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

	Number of employees 2012	2011
Nil to HK$1,000,000	—	1
HK$1,000,001 to HK$1,500,000	—	1
HK$1,500,001 to HK$2,000,000	2	—
	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 (2011: Nil).

10. INCOME TAX

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 rates 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%.

	2012	2011
	HK$'000	*HK$'000*
Current — Mainland China		
Charge for the year	**65,284**	51,268
Overprovision in prior years	**—**	(1,277)
Deferred *(Note 18)*	**(154)**	(916)
Total tax charge for the year	**65,130**	49,075

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:

	2012	2011
	HK$'000	*HK$'000*
Profit before tax	**265,257**	209,229
Tax at the applicable tax rates	**69,306**	56,437
Lower tax rate for specific provinces or enacted by local authority	**(35,196)**	(12,993)
Adjustment in respect of current tax of previous periods	**—**	(1,277)
Income not subject to tax	**(2,388)**	(3,627)
Expenses not deductible for tax	**5,320**	4,305
Tax loss not recognised	**28,088**	6,230
Tax charge at the Group's effective tax rate	**65,130**	49,075

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company for the year ended 30 June 2012 includes a loss of HK$3,984,000 (2011: a profit of HK$13,343,000) which has been dealt with in the financial statements of the Company (note 28).

12. DIVIDENDS

	2012 **HK$'000**	2011 *HK$'000*
Dividends paid:		
Final dividend in respect of the financial year ended 30 June 2011		
— HK3.6 cents per ordinary share and a bonus issue of shares on the basis of 1 new ordinary share for every 5 existing ordinary shares (2011: special dividend and satisfied by way of scrip dividend of 4,910,614 shares of HK$0.1 each and deemed at HK$5.96 per share in respect of the financial year ended 30 June 2010)	**30,057**	29,267
Proposed dividend:		
Final	**36,320**	30,000

The directors recommend the payment of dividend of HK$36,320,000 (approximately HK3.6 cents per share) for the year. The dividend payable was not reflected in the financial statements for the year ended 30 June 2012.

The dividend per share is based on the number of shares in issue as at the end of the reporting period. The dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting to be held on 14 December 2012. These financial statements do not reflect the dividend payable.

The proposed final dividend of HK$30,000,000, representing HK3.6 cents per share, and a bonus issue of shares on the basis of 1 new ordinary share for every 5 existing ordinary shares (the "**Bonus Issue**") for the year ended 30 June 2011 were approved by the Company's shareholders at the Company's annual general meeting on 16 December 2011. A final dividend of HK3.6 cents per share for the year ended 30 June 2011 was satisfied by cash payment. On 13 January 2012, 166,982,122 shares of HK$0.1 each were issued to satisfy the bonus issue of shares. The dividend payable was not reflected in the financial statements as at 30 June 2011.

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

The calculation of the 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 1,004,240,000 (2011: 947,509,000 adjusted for the effect of the Bonus Issue) in issue during the year, as adjusted for the effect of the Bonus Issue during the year.

The weighted average number of ordinary shares used to calculate the basic earnings per share for the year ended 30 June 2011 included the 600,000,000 ordinary shares (note 26) as if the shares had 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, 4,910,614 shares issued by the Company as the settlement of the special dividend by way of scrip dividend during that year, and adjusted for the effect of the Bonus Issue.

The calculations of basic and diluted earnings per share are based on:

	2012 ***HK$'000***	2011 *HK$'000*
Earnings:		
Profit for the year attributable to equity holders of the Company	**204,513**	160,523

	'000	*'000*
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share (2011: restated to reflect the effect of the Bonus Issue)	**1,004,240**	947,509
Weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the year	**6,552**	—
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,010,792**	947,509

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures, equipment and motor vehicles HK$'000	Leasehold improvements HK$'000	Construction in progress HK$'000	Total HK$'000
30 June 2012						
Cost:						
At 1 July 2011	—	5,114	9,597	2,024	545	17,280
Additions	14,114	3,709	864	1,424	665	20,776
Exchange realignment	(7)	101	151	40	10	295
At 30 June 2012	14,107	8,924	10,612	3,488	1,220	38,351
Accumulated depreciation:						
At 1 July 2011	—	993	2,109	—	—	3,102
Depreciation charge for the year	163	1,093	1,388	201	—	2,845
Exchange realignment	—	20	40	—	—	60
At 30 June 2012	163	2,106	3,537	201	—	6,007
Net book value:						
At 30 June 2012	13,944	6,818	7,075	3,287	1,220	32,344

Included in "buildings" are certain properties of RMB5,268,000 (equivalent to HK$6,465,000), which were transferred from "deposits and other receivables" during the year (note 22).

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group (continued)

	Buildings *HK$'000*	Plant and machinery *HK$'000*	Furniture, fixtures, equipment and motor vehicles *HK$'000*	Leasehold improvements *HK$'000*	Construction in progress *HK$'000*	Total *HK$'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

The Group's buildings were located in Mainland China and were held under medium term leases.

15. PREPAID LAND LEASE PAYMENTS

Group

	HK$'000
Carrying amount at 1 July 2010, 30 June 2011 and July 2011	—
Additions*	63,060
Exchange realignment	(31)
Carrying amount at 30 June 2012	63,029
Current portion included in prepayments, deposits and other receivables	(1,465)
Non-current portion	61,564

* *Included in additions are certain land lease prepayments of RMB29,430,000 (approximately HK$36,120,000), which were transferred from "deposits and other receivables" during the year (note 22).*

The leasehold lands are situated in Mainland China and are held under medium term leases.

16. GOODWILL

Group

	2012 **HK$'000**	2011 HK$'000
Cost		
Balance at beginning of year and the end of year	**15,772**	15,772
Accumulated impairment loss		
Balance at beginning of year	**—**	—
Impairment loss recognised in the year	**(1,223)**	—
Balance at the end of year	**(1,223)**	—
Carrying amount		
Balance at 30 June	**14,549**	15,772

16. GOODWILL (continued)

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, taking into account Guangdong Qunhe was loss-making in the current year, consider goodwill of HK$1,223,000 arising from the acquisition of Guangdong Qunhe was impaired.

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 covering a five-year period approved by senior management, with cash flows beyond the five-year period being extrapolated. The key assumption for the cash flow projections is the budgeted gross margin which being the average gross profit margin achieved in the year immediately before budget years. The discount rate applied to cash flow projections was 14.75% for the year ended 30 June 2012, which was before tax and reflected 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 30 June 2012 is not impaired.

17. INTANGIBLE ASSET

Group

	Trade name *HK$'000*
Cost:	
At 1 July 2010	34,389
Exchange realignment	1,685
At 30 June 2011 and 1 July 2011	36,074
Exchange realignment	727
At 30 June 2012	36,801
Accumulated amortisation:	
At 1 July 2010	7,643
Provided during the year	3,915
Exchange realignment	467
At 30 June 2011 and 1 July 2011	12,025
Provided during the year	4,091
Exchange realignment	240
At 30 June 2012	16,356
Net carrying amount:	
At 30 June 2012	20,445
At 30 June 2011	24,049

18. DEFERRED TAX

The major deferred tax liabilities recognised and their movements are as follows:

Group

	Fair value adjustments arising from acquisition of subsidiaries *HK$'000*
At 1 July 2010	6,687
Deferred tax credited to the consolidated income statement *(note 10)*	(979)
Exchange realignment	304
At 30 June 2011 and 1 July 2011	6,012
Deferred tax credited to the consolidated income statement *(note 10)*	(1,022)
Exchange realignment	121
At 30 June 2012	5,111

The major deferred tax assets recognised and their movements are as follows:

	Deductible temporary difference *HK$'000*
At 1 July 2010	1,346
Deferred tax debited to the consolidated income statement *(note 10)*	(63)
At 30 June 2011 and 1 July 2011	1,283
Deferred tax debited to the consolidated income statement *(note 10)*	(868)
At 30 June 2012	415

The Group has tax losses arising in Mainland China of HK$130,600,000 (2011: HK$24,900,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in a subsidiary that has been loss making and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

18. DEFERRED TAX (continued)

During the year ended 30 June 2012, 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$654,409,000 (2011: HK$392,005,000) at 30 June 2012.

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

19. INVESTMENTS IN SUBSIDIARIES

	Company	
	2012	2011
	HK$'000	*HK$'000*
Unlisted investments, at cost	**116,540**	116,540

The amounts due from subsidiaries included in the Company's current assets 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 2012**	**2011**	**Principal activities**
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**	100	Trading of facial masks and other skincare products

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 2012	2011	Principal activities
Indirectly held (continued)					
南京芊達化妝品有限公司 ("**芊達**")**	PRC/Mainland China	RMB5,000,000	**100**	N/A	Trading of facial masks and other skincare products
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**	100	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**	100	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/Hong Kong	US$2,950,000	**51**	51	Investment holding
Magic-Hanbul International Limited ("**MG HK**")	Hong Kong	HK$23,000,000	**51**	51	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**	51	Sale of skincare products and not yet commenced business

* *Registered as wholly-foreign-owned enterprises under PRC law*

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

Notes:

(1) During the year ended 30 June 2011, 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 at a cash consideration of RMB2,400,000 (approximately HK$2,886,000). Further details of the acquisition of 中合美 were set out in note 29.

19. INVESTMENTS IN SUBSIDIARIES (continued)

The statutory financial statements of the subsidiaries listed above are not audited by Ernst & Young, Hong Kong or another 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.

20. INVENTORIES

	Group	
	2012	2011
	HK$'000	*HK$'000*
Raw materials	**11,170**	7,392
Finished goods	**15,797**	7,453
	26,967	14,845

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 2012 were amounts of HK$245,953,000 (2011: HK$180,704,000), 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. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing. The Group's trade receivables relate to a number of diversified customers and there is certain concentration of credit risk.

21. TRADE RECEIVABLES (continued)

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

	Group	
	2012	2011
	HK$'000	*HK$'000*
1 to 180 days	**249,108**	181,248
Over 180 days	**1,389**	—
	250,497	181,248

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

	Group	
	2012	2011
	HK$'000	*HK$'000*
Neither past due nor impaired	**249,108**	181,248
Over 180 days past due	**1,389**	—
	250,497	181,248

The Group's 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 customer that has 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 the balance as there has not been a significant change in credit quality and the balance is still considered fully recoverable.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Prepayments*	**1,636**	1,635	**86**	—
Prepaid sales and promotional expenses	**101,584**	93,458	**—**	—
Deposits and other receivables**	**8,257**	44,226	**1,759**	—
	111,477	139,319	**1,845**	—
Less: Non-current portion	**(2,467)**	(41,723)	**—**	—
	109,010	97,596	**1,845**	—

At 30 June 2012, 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 for the year ended 30 June 2011 was an amount of approximately HK$1,619,000, being a deposit paid to Hanbul Cosmetics Company Limited ("**Hanbul**") for the purchases of inventories, which was utilised during the year.*

** *Included in the "deposits and other receivables" as at 30 June 2011 was a deposit paid for acquisition of a new office building in Guangzhou of RMB22,748,000 (approximately HK$27,919,000), of which RMB5,268,000 (approximately HK$6,465,000) (note 14) and RMB17,480,000 (approximately HK$21,454,000) (note 15) were transferred to "buildings" included in property, plant and equipment and prepaid land lease payments, respectively, during the year. Besides, included in the "deposits and other receivables" as at 30 June 2011 was also a deposit paid for acquisition of land use right of a piece of land in Guangzhou of RMB11,950,000 (approximately HK$14,666,000) (note 15), which was transferred to prepaid land lease payments during the year.*

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**722,192**	842,168	**409,971**	425,387
Non-pledged time deposits with original maturity of over three months when acquired	**122,669**	120,247	**122,669**	120,247
Non-pledged time deposits with original maturity of less than three months when acquired	**259,341**	12,989	**—**	—
Cash and cash equivalents	**1,104,202**	975,404	**532,640**	545,634

At 30 June 2012, the Group's and the Company's cash and bank balances denominated in Renminbi ("**RMB**") amounted to approximately HK$1,005,559,000 (2011: HK$901,913,000) and HK$461,821,000 (2011: HK$489,027,000), respectively. RMB is not freely convertible into other currencies. Under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and 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.

24. TRADE PAYABLES

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

	Group	
	2012	2011
	HK$'000	*HK$'000*
Within 90 days	**63,825**	45,401

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

25. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Other payables	**22,196**	22,280	**179**	179
Accruals and other liabilities	**15,601**	12,031	**2,562**	—
	37,797	34,311	**2,741**	179

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

26. SHARE CAPITAL

Shares

	2012	2011
	HK$'000	*HK$'000*
Authorised:		
2,000,000,000 (2011: 2,000,000,000) ordinary shares of HK$0.1 each	**200,000**	200,000
Issued and fully paid:		
1,008,902,736 (2011: 834,910,614) ordinary shares of HK$0.1 each	**100,890**	83,491

The movements of authorised share capital were as follows:

	Notes	Number of ordinary shares	Nominal value of ordinary shares *HK$'000*
At 1 July 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 and 30 June 2012		2,000,000,000	200,000

26. SHARE CAPITAL (continued)

Shares (continued)

The movements of issued share capital during the years ended 30 June 2011 and 2012 were as follows:

	Notes	Number of ordinary shares	Nominal value of ordinary shares *HK$'000*
As at 1 July 2010		1	—
Allotment and issuance of 2,288,299 nil-paid shares on 5 September 2010	*(c)*	2,288,299	—
On acquisition of Magic Holdings on 6 September 2010			
— allotment and issuance of 2,288,300 shares credited as fully-paid	*(d)(i)*	2,288,300	229
— 2,288,300 nil-paid shares credited as fully-paid *(note (c))*	*(d)(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	*(e)*	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	*(f)*	200,000,000	20,000
Issuance of new shares on 27 September 2010 upon exercise of an over-allotment option	*(g)*	30,000,000	3,000
Issuance of new shares pursuant to the scrip dividend scheme	*12*	4,910,614	491
At 30 June 2011		834,910,614	83,491
Bonus issue	*(h)*	166,982,122	16,698
Shares issued upon exercise of share options	*(i)*	7,010,000	701
At 30 June 2012		1,008,902,736	100,890

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 5 September 2010, a further 2,288,299 nil-paid shares were allotted and issued to the shareholders of Magic Holdings in proportion to their shareholdings in the Company and the one nil-paid share was transferred by Mr. Tang to MG Company Limited ("**MGL**"), a company incorporated in the BVI and wholly-owned by Mr. Tang. The shares were subsequently credited as fully-paid as described in (d)(ii) below.

(d) (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 (c)).

(e) 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 2011, 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 (f) below.

(f) 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.

(g) 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.

(h) A bonus issue of shares on the basis of 1 new share for every 5 existing ordinary shares were approved by the Company's shareholders at the Company's annual general meeting on 16 December 2011. On 13 January 2012, 166,982,122 shares of HK$0.1 each were issued to satisfy the bonus issue of shares and were credited as fully paid by way of capitalisation of an amount in the share premium account of the Company.

(i) During the year ended 30 June 2012, the subscription rights attaching to 7,010,000 share options were exercised at the subscription price of HK$2.027 per share (adjusted for the effect of the Bonus Issue), resulting in the issue of 7,010,000 shares of HK$0.1 each for a total cash consideration, before expenses, of HK$14,209,000. An amount of HK$2,650,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.

26. SHARE CAPITAL (continued)

Share awards and share option scheme

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

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 employees 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 (the "**Magic Shares**") under the Share Award Plan would be formed by the allotment and issue of the 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 the Magic Shares 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.

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 (the "**2009 Awards**") 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 awards 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 awarded shares granted on 30 October 2009, 458 awarded shares were granted to certain directors and/or shareholders of the Company, who are also the senior management of the Group (collectively the "**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 awarded shares were granted to certain senior management and employees of the Group and 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 2011, 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 2011, 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 2011, the vesting period shall be postponed to the first business day immediately after 30 June 2014 (but excluding 30 June 2014)
80% of the total number of awarded shares	Period commencing from the first business day immediately after 30 June 2014 (but excluding 30 June 2014), and where the listing of the Company's shares has not taken place on or before 30 June 2011, the vesting period shall be postponed to the first business day immediately after 30 June 2015 (but excluding 30 June 2015)

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

Share award plan (continued)

Maximum number of awarded shares to be vested	Period
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 2011, 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 interests 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 ended 30 June 2011, 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. who is a director of HHBP, the then ultimate holding company of the Company.

According to the Plan Rules, an aggregate number 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 were granted to Mr. Ho Cheung Ping Dawnie ("**Mr. Ho**"), one of the Management Shareholders, and were vested on the same date pursuant to the Plan Rules.

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 2011, 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 2011, 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 2011, 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)

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 2011, 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 2011, 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.

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 ended 30 June 2011 was estimated as at the date of grant based on the market value of the shares of the Company at the date of grant.

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

Share award plan (continued)

During the year ended 30 June 2012, net share award expenses of HK$22,767,000 (2011: HK$13,316,000) were charged to the consolidated income statement, of which HK$7,593,000 (2011: HK$4,480,000), HK$9,827,000 (2011: HK$5,798,000) and HK$3,027,000 (2011: HK$1,786,000) were included in the directors' remuneration to Mr. Tang, Mr. She and Mr. Luo, respectively (note 8). The net share award expenses for the year ended 30 June 2011 included 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 employees 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 8).

Share option scheme

The 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 grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

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

Share option scheme (continued)

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 the date of 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.

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

The following share options were outstanding under the Scheme during the year:

	Weighted average exercise price *HK$ per share*	Number of options *'000*
At 1 July 2010, 30 June 2011 and 1 July 2011	—	—
Granted during the year*	2.432	30,000
Adjustment*	N/A	6,000
Exercised during the year	2.027	(7,010)
At 30 June 2012	2.027	28,990

* *On 13 January 2012, the exercise price and number of share options have been adjusted from HK$2.432 to HK$2.027, and from 30,000,000 shares to 36,000,000 shares, respectively, as a result of the Bonus Issue. Further details of the Bonus Issue are set out in the announcement of the Company dated 16 December 2011.*

The weighted average share price at the date of exercise for share options exercised during the year was HK$3.38 per share (2011: Nil).

The 7,010,000 share options exercised during the year resulted in the issue of 7,010,000 ordinary shares of the Company and new share capital of HK$701,000 and share premium account of HK$16,158,000 (before issue expenses), as further detailed in notes 26 and 28(b) to the financial statements.

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

Share option scheme (continued)

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2012

Number of options *'000*	Exercise price* *HK$ per share*	Exercise period
28,990	2.027	27 September 2011 to 26 September 2013

* *The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.*

During the year ended 30 June 2012, 30,000,000 share options, which were vested on 27 September 2011 and were subsequently adjusted to 36,000,000 for the effect of the Bonus Issue were granted and their fair value was estimated at approximately HK$13,609,000 which was recognised as a share option expense of the Group during the year ended 30 June 2012.

The fair value of equity-settled share options granted during the year ended 30 June 2012 was estimated as at the date of grant, using the binominal option pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Dividend yield	1.56%
Expected volatility	47.354%
Exit rate (for directors)	7.4%
Exit rate (for employees)	7.8%
Risk-free interest rate	0.186%
Expected life of options (year)	2

The expected life of the options is based on the historical data and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period and up to the date of approval of these financial statements, the Company had 28,990,000 share options outstanding under the Scheme. The exercise in full of the share options would, under the present capital structure of the Company, result in the issue of 28,990,000 additional ordinary shares of the Company and additional share capital of HK$2,899,000 and share premium account of HK$55,864,000 (before issue expenses).

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*	Share option reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
At 1 July 2010	—	—	—	—	—
Profit and total comprehensive income for the year	—	—	—	13,343	13,343
Issuance of shares upon the corporate reorganisation *(Notes 26(c) and 26(d)(ii))*	(229)	—	—	—	(229)
Issuance of shares credited as fully paid *(Note 26(d)(i))*	(229)	—	—	—	(229)
Reorganisation and share swap arrangement	—	116,361	—	—	116,361
Issuance of shares by way of capitalisation of the share premium account *(Note 26(e))*	(59,542)	—	—	—	(59,542)
Issuance of new shares on 24 September 2010 *(Note 26(f))*	640,000	—	—	—	640,000
Issuance of new shares on 27 September 2010 upon exercise of an over-allotment option *(Note 26(g))*	96,000	—	—	—	96,000
Share issue expenses, net	(46,039)	—	—	—	(46,039)
2010 special dividend *(Note 12)*	(29,267)	—	—	—	(29,267)
Issuance of shares to settle the 2010 special dividend *(Note 12)*	28,776	—	—	—	28,776

28. RESERVES (continued)

(b) Company (continued)

	Share premium account HK$'000	Capital reserve* HK$'000	Share option reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 30 June 2011 and 1 July 2011	629,470	116,361	—	13,343	759,174
Loss and total comprehensive expense for the year	—	—	—	(3,984)	(3,984)
2011 final dividend declared and paid *(Note 12)*	(30,057)	—	—	—	(30,057)
Bonus issue of shares	(16,698)	—	—	—	(16,698)
Equity-settled share option arrangements *(Note 27)*	—	—	13,609	—	13,609
Shares issued upon exercise of share options	16,158	—	(2,650)	—	13,508
At 30 June 2012	598,873	116,361	10,959	9,359	735,552

* *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 therefor. 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.*

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

Had the combination taken place at the beginning of the year ended 30 June 2011, the revenue and the profit of the Group for the year would have been HK$957,382,000 and HK$160,187,000, respectively.

30. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions:

(i) During the year ended 30 June 2012, RMB5,268,000 (approximately HK$6,465,000) and RMB17,480,000 (approximately HK$21,454,000) of the deposit paid for acquisition of a new office building in Guangzhou of RMB22,748,000 (approximately HK$27,919,000) at 30 June 2011 were transferred to "buildings" included in property, plant and equipment and prepaid land lease payments, respectively. Besides, a deposit paid for acquisition of a piece of land in Guangzhou of RMB11,950,000 (approximately HK$14,666,000) as at 30 June 2011, was transferred to prepaid land lease payments during the year. Further details are set out in notes 14, 15 and 22 to the financial statements.

(ii) During the year ended 30 June 2012, the Group issued bonus shares on the basis of 1 new share for every 5 existing ordinary shares held by the qualifying shareholders. On 13 January 2012, 166,982,122 shares of HK$0.1 each were issued to satisfy the bonus issue of shares and were credited as fully paid by way of capitalisation of an amount in the share premium account of the Company. Further details are set out in note 26 to the financial statements.

(iii) During the year ended 30 June 2011, 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 note 12 to the financial statements.

31. 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 at the end of the lease terms, at which time all terms will be renegotiated.

As at 30 June 2012, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2012	2011
	HK$'000	*HK$'000*
Within one year	**4,920**	2,105
In the second to fifth years, inclusive	**5,654**	1,439
After five years	**1,146**	1,084
	11,720	4,628

32. COMMITMENTS

In addition to the operating lease commitments disclosed in note 31 above, the Group had the following commitments at the end of the reporting period:

	Group	
	2012	2011
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Acquisition of trademarks*	**1,560**	1,560
Purchase of property, plant and equipment	**274**	—
Leasehold land and buildings	**—**	27,296
	1,834	28,856

* *Pursuant to the trademark assignment agreements entered into by the Group and Hanbul and one of the subsidiaries of Hanbul (together "**Hanbul Group**"), both dated 28 April 2011, certain trademarks of Hanbul Group 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.*

33. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with a related party during the year:

		2012	2011
	Note	***HK$'000***	*HK$'000*
Purchases of products from Hanbul	*(i)*	**2,708**	—

Note:

(i) The purchases of products from Hanbul were determined by the directors of the Company and the related company with reference to the then prevailing market conditions.

The above transaction also constituted connected transactions as defined in Chapter 14A of the Listing Rules. The directors are of the opinion that the above transactions were conducted in the ordinary course of business of the Group.

33. RELATED PARTY TRANSACTIONS (continued)

(b) 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 8 to the consolidated financial statements.

(c) Pursuant to an undertaking dated 23 September 2011 entered into 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 at 30 June 2011 in relation to an intra-group restructuring undergone by certain subsidiaries of the Group during the year.

34. 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

	2012	2011
	HK$'000	*HK$'000*
Trade receivables	**250,497**	181,248
Financial assets included in prepayments, deposits and other receivables	**2,171**	1,831
Cash and cash equivalents	**1,104,202**	975,404
	1,356,870	1,158,483

Financial liabilities at amortised cost

	2012	2011
	HK$'000	*HK$'000*
Trade payables	**63,825**	45,401
Financial liabilities included in other payables and accruals	**7,239**	8,879
	71,064	54,280

34. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company

Financial assets — loans and receivables

	2012 *HK$'000*	2011 *HK$'000*
Amounts due from subsidiaries	**188,158**	180,670
Financial assets included in prepayments, deposits and other receivables	**1,759**	—
Cash and cash equivalents	**532,640**	545,634
	722,557	726,304

Financial liabilities at amortised cost

	2012 *HK$'000*	2011 *HK$'000*
Financial liabilities included in other payables and accruals	**2,741**	179

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents. The Group has various other financial assets and liabilities such as trade receivables, other receivables, trade payables and certain other payables and accruals, 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.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in interest rate, with all other variables held constant, of the Group's and the Company'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*
2012			
RMB	**1%**	**9,658**	**5,326**
RMB	**(1%)**	**(9,658)**	**(5,326)**
2011			
RMB	1%	7,987	4,891
RMB	(1%)	(7,987)	(4,891)

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. 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.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

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.

	Increase/ (decrease) in percentage points	Group Increase/ (decrease) in net profit HK$'000	Company Increase/ (decrease) in net profit HK$'000
2012			
If the Hong Kong dollars weakens against RMB	**5%**	**23,526**	**23,526**
If the Hong Kong dollars strengthens against RMB	**(5%)**	**(23,526)**	**(23,526)**
2011			
If the Hong Kong dollars weakens against RMB	5%	24,453	24,451
If the Hong Kong dollars strengthens against RMB	(5%)	(24,453)	(24,451)

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, and other receivables arises from default of the counterparty, with a maximum exposure equal to the carrying amounts 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.

35. 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 and the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is less than one year.

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 2011 and 2012.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 17 September 2012.

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				
	2012	2011	2010	2009	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**1,349,409**	957,322	631,039	374,593	252,814
Profit before tax	**265,257**	209,229	142,376	82,311	57,878
Income tax expense	**(65,130)**	(49,075)	(24,930)	(16,083)	(23,790)
Profit for the year	**200,127**	160,154	117,446	66,228	34,088
Attributable to:					
Equity holders of the Company	**204,513**	160,523	118,583	67,618	24,617
Non-controlling interests	**(4,386)**	(369)	(1,137)	(1,390)	9,471
	200,127	160,154	117,446	66,228	34,088

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 30 June				
	2012	2011	2010	2009	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**1,623,355**	1,366,975	447,259	266,916	235,480
Total liabilities	**(130,731)**	(108,943)	(108,563)	(97,539)	(73,104)
Non-controlling interests	**(12,278)**	(16,328)	(5,188)	(6,268)	(29,706)
	1,480,346	1,241,704	333,508	163,109	132,670

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS (continued)

Notes:

(i) The summary of the consolidated results of the Group for each of the two years ended 30 June 2008 and 2009 and of the assets, liabilities and non-controlling interests as at 30 June 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 2011 and 2012 and the consolidated assets and liabilities and non-controlling interests of the Group as at 30 June 2011 and 2012 are those set out on pages 54 to 55 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.