



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

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1633

**Annual Report**  
**2012/2013**





美即拾年暖 

*The warmest the best is  
always with you*



## CONTENTS

2	Corporate Information
4	Milestones
6	Financial Highlights
7	Chairman’s Statement
11	Management Discussion and Analysis
17	Biographical Details of Directors and Senior Management
20	Report of the Directors
35	Corporate Governance Report
43	INDEPENDENT AUDITORS’ REPORT
	AUDITED FINANCIAL STATEMENTS:
	CONSOLIDATED:
45	Income Statement
46	Statement of Comprehensive Income
47	Statement of Financial Position
49	Statement of Changes in Equity
51	Statement of Cash Flows
	COMPANY:
53	Statement of Financial Position
54	Notes to Financial Statements
115	SUMMARY FINANCIAL INFORMATION



# 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

### Non-executive Directors

Mr. Sun Yan

Mr. Chen Dar Cin

### 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

Cricket Square, Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

## HEADQUARTERS IN CHINA

29/F, Poly International Plaza North Tower

NO.688 Yue Jiang Road M

Hai Zhu District

Guangzhou, Guangdong Province

China

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

Room 802, Sino Plaza

255–257 Gloucester Road

Causeway Bay, Hong Kong

China

## CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited

Butterfield House

68 Fort Street, P.O. Box 609

Grand Cayman KY1-1107

Cayman Islands

## CORPORATE INFORMATION

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

### AUDITORS

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

### LEGAL ADVISER AS TO HONG KONG LAWS

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

### LEGAL ADVISER AS TO CHINA LAWS

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

### COMPANY'S WEBSITE

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

### STOCK CODE

01633

### PRINCIPAL BANKERS

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

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

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

# MILESTONES

## 2005



- Introduction of first fifteen MG Brand products under the peel off basic series in Watson in Beijing;
- Hua Han Group invested in Guangdong Qunhe & Guangzhou MG Cosmetics.

## 2006



- Introduction of Squeeze mask;
- Development of our supermarket and hypermarket sales channel;
- Received Health & Beauty Awards 2006 from Watsons.



## 2007



- Received HWB Award 2007 from Watsons.



## 2009



- Development of our skincare specialty store sales channel;
- Received HWB Award 2009 from Watsons.



## 2010



- Introduction of our mid to high MG Brand product series under peel off facial mask, namely Chinese herbal, Spring and Forever silky;
- Development of our e-commerce sales channel;
- Formed joint venture with Hanbul Cosmetics Co Ltd, a company over 20 years of experience in development and manufacturing of skincare and cosmetic products in Korea;
- The shares of Magic listed on the Stock Exchange of Hong Kong Limited;
- Received HWB Award 2010 from Watsons;
- Received Power of Beauty Award 2010 from Tencent.



# MILESTONES

## 2011



- Introduction of our Keep Up Brand under skincare business segment;
- Received HWB Award 2011 from Watsons;
- Received Effie Awards China 2011 from Ogilvy & Mather China;
- Received 2011 Beauty Queen Awards from Only lady.com;
- Received 2011 Internet Beauty Awards from Lady.163.com;
- Received 2011 Cosmopolitan Beauty Awards from Cosmopolitan.



## 2012



- Introduction of our higher end product series under the wash off facial mask;
- Total sales revenue breakthrough HK\$1 billion;
- Sales revenue and net profit growth by ten times since June 2007;
- Baring private equity acquired interest in Magic;
- Greenwood's asset management acquired interest in Magic;
- Received HWB Award 2012 from Watsons;
- Received 2012 Cosmopolitan Beauty Awards from Cosmopolitan;
- Received 2012 The Real Best Cosmetics Award from Rayli Magazine.



## 2013



- MG mask first mini film <The Magic Moment> on show;
- Completed the acquisition of Apex Rich Enterprises Limited.

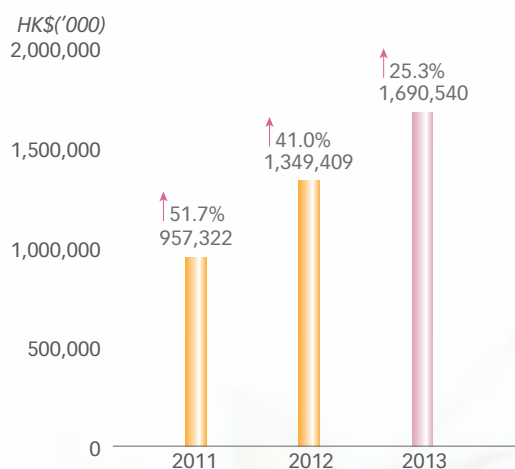


# FINANCIAL HIGHLIGHTS

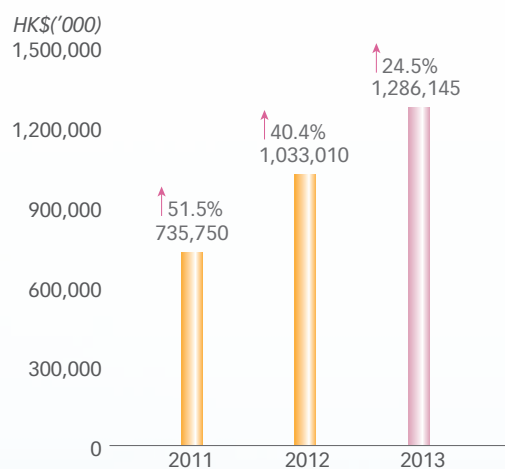
	2013 HK\$'000	2012 HK\$'000	Increase/ (Decrease) % Change
Sales revenue	<b>1,690,540</b>	1,349,409	25.3%
Gross profit	<b>1,286,145</b>	1,033,010	24.5%
Profit attributable to equity holders of the Company	<b>207,095</b>	204,513	1.3%
Net profit excluding non-operating income and expense	<b>208,247</b>	226,661	(8.1)%
Basic earnings per share (HK cents)	<b>20.35</b>	20.36	0.0%
Gearing ratio (%) (Note)	<b>Nil</b>	Nil	0.0%
Net Cash	<b>965,492</b>	1,104,202	(12.6)%

Note: There was no outstanding bank borrowing as at 30 June 2013 and 30 June 2012.

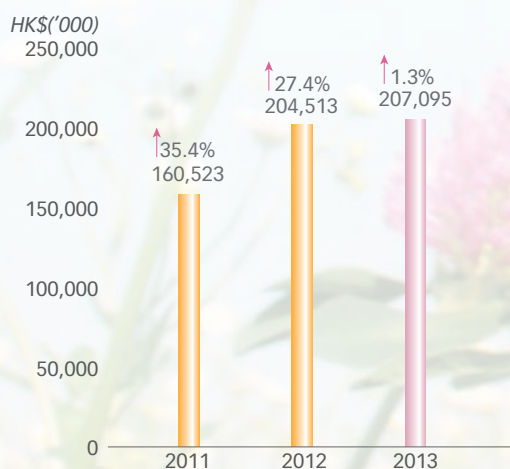
## SALES REVENUE



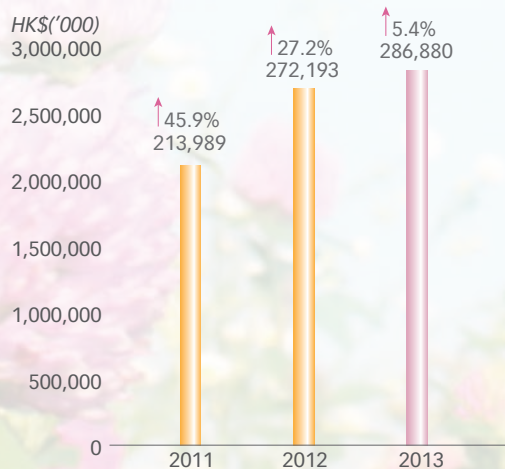
## GROSS PROFIT



## PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY



## EBITDA





## CHAIRMAN'S STATEMENT



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 achieved another outstanding financial year ended 30 June 2013. Despite the fact that the economy growth slowed down in China for the past year, the Group’s sales revenue grew at a rate of approximately 29% in the calendar year 2012 and approximately 25% in the financial year 2013, respectively. Thanks to the rapid growth of the facial mask industry and the effective implementation of the Company’s strategies. On 29 July 2013, the Group had completed the acquisition of Apex Rich Enterprises Limited which provides a golden opportunity to the Group to further expand its core business in the e-commerce sector in China. Moreover, Year 2013 is an important year to the Group, since it is the 10th anniversary of the establishment of our MG Brand. Over the past ten years, MG Brand has successfully established a strong brand image in China.

### REVIEW OF THE FINANCIAL YEAR 2013

**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 25% in sales revenue for the financial year 2013. Since last year, it has been 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.

**Be a leading brand for the fourth consecutive years.** According to the ACNielsen report, the market share of MG Brand in China up to 31 December 2012 was 26.4% continue to be the leading brand in China for the fourth consecutive year. The leading position of MG Brand in China has proven it’s successfully brand building and marketing strategies over the past years.

## CHAIRMAN'S STATEMENT

**Distribution network optimization and expansion created significant value.** Distribution network is vital to fast moving consumer goods such as facial mask products. We continue to optimize and expand our distribution network in China in order to cope with the fast moving characteristic of facial mask products. To date we have optimized each point of sales in the personal healthcare product chain stores, hypermarkets 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. Furthermore, in light of the trend of fast growth of E-commerce, we stepped up our efforts to develop E-commerce business by acquiring Apex Rich, which we believe will produced a positive results to the Group in the long run.

**New products offering during the financial year.** 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. In order to maintain as a market leader in the facial mask industry, the Group will continue to offer innovative product in the existing product lines and launch of entire new series of product line under MG Brand.

### 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, 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.

## CHAIRMAN'S STATEMENT

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.



## CHAIRMAN'S STATEMENT

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.

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.

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

18 September 2013

## MANAGEMENT DISCUSSION AND ANALYSIS

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 2013, 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 2013, the Group maintained a healthy continuous growth and achieved a new height. Sales revenue for the year ended 30 June 2013 amounted to approximately HK\$1,690,540,000, representing a growth of approximately 25.3% as compared with approximately HK\$1,349,409,000 in the preceding financial year. Gross profit margin maintained at approximately 76.1% in the year ended 30 June 2013 as compared to approximately 76.6% 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\$207,095,000 in the year ended 30 June 2013, representing an increase of approximately 1.3% from approximately HK\$204,513,000 in financial year 2012. Regardless of the non-operating income, namely 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 2013 decreased by approximately 8.1% from approximately HK\$226,661,000 in financial year 2012 to approximately HK\$208,247,000 in the year ended 30 June 2013.

The total selling, general and administrative expenses incurred by the Group during the year under review was approximately HK\$1,031,424,000, representing in aggregate approximately 61.0% of the total sales revenue, of which, total selling and distribution expenses were approximately HK\$933,982,000, representing in aggregate approximately 55.2% of total sales revenue. Administrative expenses were approximately HK\$97,442,000, out of which approximately HK\$17,070,000 was incurred as equity settled share award.

### BUSINESS AND INDUSTRY REVIEW

#### The Industry Trend

Facial mask product is under the skincare industry and the development of the industry is closely dependent on the size of population and the income level of the population. The plans for “Urbanization Development” and “Income Doubling Program” during the 18th National Congress of the Communist Party of China will benefit the long term development of the facial mask and skincare industry. Given the relatively low penetration rate and frequency of use of facial mask when compared to other skincare products in China, we strongly believe that, the increase in both the population and their income level will provide a high growth potential for facial mask industry.



# MANAGEMENT DISCUSSION AND ANALYSIS

## Brand Building and Marketing



Year 2013 is an important year to our MG Brand, since it is the 10th anniversary of the establishment of MG Brand. Over the past ten years, not only our MG Brand successfully established a strong brand image but also a strong connection with the consumers in China. The success of MG Brand is proven by its market share in China. According to the ACNielsen Report, the market share of MG Brand in China for the year 2012 is 26.4%, which means MG Brand is still the leading facial mask brand in China. The brand awareness of our MG Brand has also been the highest in the facial mask industry in China. Consumers often consider our MG

Brand as a professional facial which is 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 among the consumers.

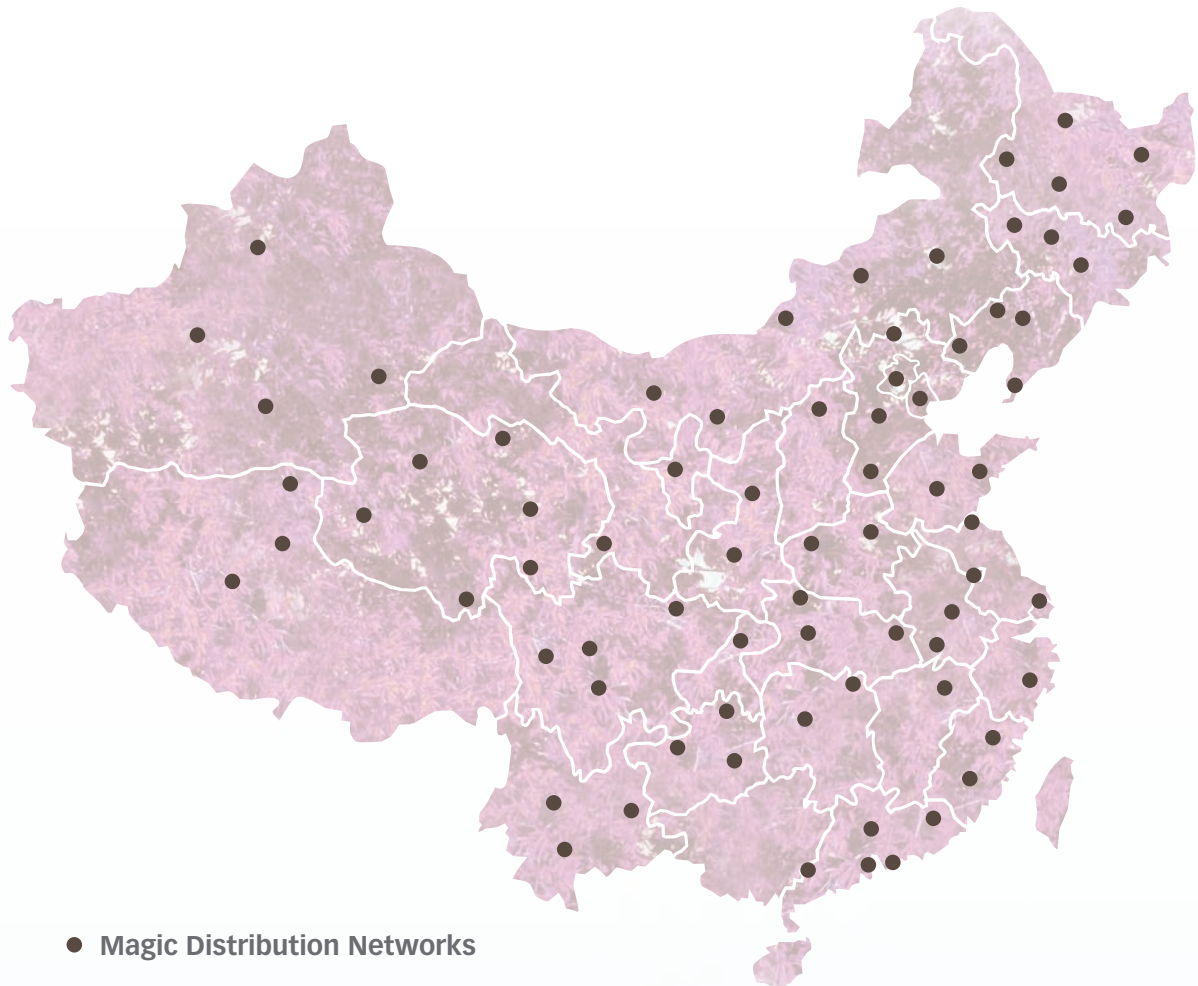
We understand to establish a well-known brand is a long term process especially for products like facial masks which is in a fast changing environment where the market shares are not concentrated with a few brands and the consumers' loyalty are not apparently high. We strongly believe that building up brand awareness and good reputation for our MG Brand is an important and necessary move, therefore, we will continue to allocate more time and resources on both above-the-line and below-the-line marketing strategies. To further enhance our MG Brand image, our advertising partner had prepared a whole new advertising campaign for our MG Brand in 2013, which included but not limited to the advertisement on television, metro, magazines, mini film over the internet, and other promotional channels. In respect of the below-the-line marketing strategy, we further enhance our MG Brand image by 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. Both of the above-the-line and below-the-line marketing strategies have been successful and effective which is best by referencing to our MG Brand's market share, brand awareness and also the response of the consumers.

The above-mentioned 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 have enabled MG Brand to move further ahead from a market share leading brand to a comprehensive leading brand.



# MANAGEMENT DISCUSSION AND ANALYSIS

## Optimization and Expansion of Distribution Networks



During the year under review, we continued to optimize and expand our distribution networks. 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 channels, and also increased the number of point of sales with high quality shop management. Besides optimization and expansion of our distribution networks, we are also looking for opportunities to introduce our MG Brand into different sales channels which we previously 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 channel in addition to the physical stores. As at 30 June 2013, we had 363 distributors (261 distributors as at 30 June 2012) and the number of terminal stores coverage was 13,852 (10,184 stores as at 30 June 2012), representing a net increase of 3,668 new stores for the year. The smooth development of sales channel expansion is of significant importance. We believed that 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. 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 further improve the performance of the original stores.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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, peel-off facial mask products (including eye masks) and wash-off facial mask products accounted for approximately 87.1% and approximately 11.7% of our total sales, respectively. During the financial year 2013, we have launched nine new products under the Basic Series of our MG Brand, namely Helichrysum Brightening and Repairing Mask, Snail Essence Firming and Nourishing Mask, Rowan Brightening and Whitening Jelly Mask, Q10 Activating and Tightening Mask, Black Wrack Hydrating and Activating Mask, White Lily Clear White Mask, Plum Blossom Hydrating Mask, Marigold Soothing and Hydrating Mask and Cactus Aqua Reparative Mask. While the above new products had enlarged the MG Brand portfolio, they had also provided more comprehensive choices to cater for different consumers' demand.



## 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 primary 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.



# MANAGEMENT DISCUSSION AND ANALYSIS

## 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 strategies to strengthen our facial masks products under 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. 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. 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.

## PROPOSED ACQUISITION OF ALL ISSUED SHARES OF THE COMPANY

### The Proposal

Pursuant to the joint announcement (the "**Joint Announcement**") between the Company and L'Oréal S.A. ("**the Offeror**") dated 15 August 2013, on 12 August 2013, the Offeror requested that the Board of the Company put forward the proposal to the shareholders of the Company for a proposed acquisition of all of the issued shares of the Company ("**Shares**") by way of a scheme of arrangement under Section 86 of the Companies Law (2012 Revision), as consolidated and revised, of the Cayman Islands ("**the Scheme**").

Under the Scheme, the Shares will be cancelled and in exchange, each shareholder will be entitled to receive HK\$6.30 in cash for each Share. On the effective date of the Scheme, the share capital of the Company will be reduced by cancelling and extinguishing the Shares and, forthwith upon such reduction, the share capital of the Company will be increased to its former amount by the issuance at par to the Offeror credited as fully paid of the same number of Shares and which is equal to the number of Shares cancelled.

### The Pre-Conditions

The making of the proposal is, and the implementation of the Scheme will be, conditional upon the satisfaction or waiver, as applicable, of the pre-conditions and conditions as described in the Joint Announcement.

### Irrevocable Undertakings

Mr. Tang Siu Kun Stephen, Mr. She Yu Yuan and Mr. Luo Yao Wen, each an executive director of the Company, Baring Private Equity Asia V Holding (1) Limited, Greenwoods Asset Management Limited and Atlantis Investment Management (Hong Kong) Limited ("**Atlantis**"), on behalf of those investors in funds managed by Atlantis, have each given an irrevocable undertaking to the Offeror. Further information on the irrevocable undertakings is set out in the Joint Announcement.

### Withdrawal of Listing of the Shares

Upon the Scheme becoming effective, it is anticipated that listing of the Shares on The Stock Exchange of Hong Kong Limited will be withdrawn and terminated.

Details of the proposal and the Scheme are set out in the Joint Announcement.



# MANAGEMENT DISCUSSION AND ANALYSIS

## LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2013, the Group had unpledged cash and bank balances of approximately HK\$965,492,000 (2012: approximately HK\$1,104,202,000). The gearing ratio for the Group was 0% (2012: 0%) as the Group had no outstanding bank borrowing as at 30 June 2013 (2012 outstanding bank loan: Nil). Net current assets were approximately HK\$1,286,708,000 (2012: approximately HK\$1,365,951,000) and current ratio was maintained at a healthy level of approximately 8.9 (2012: approximately 11.9) as at 30 June 2013.

The Group has no finance costs incurred during the year as there is no bank borrowing during the year ended 30 June 2013 (2012: approximately HK\$0).

## COMMITMENTS

As at 30 June 2013, the Group had contracted commitments of approximately HK\$188,879,000 (30 June 2012: HK\$1,834,000).

## CONTINGENT LIABILITIES

As at 30 June 2013, the Group did not have any significant contingent liabilities (30 June 2012: Nil).

## BANK BORROWINGS

As at 30 June 2013, the Group had no outstanding bank loans (30 June 2012: Nil).

## SEASONAL OR CYCLICAL FACTORS

During the year ended 30 June 2013, the Group's business operations were not significantly affected by any seasonal or cyclical factors.

## FOREIGN EXCHANGE EXPOSURE

During the year ended 30 June 2013, 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 2013, 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 2013, the Group had a total of 4,726 workforces, including the workforces under the Group's employment and those supplied by a workforces solution provider ("**the Provider**") (2012: 3,930), of whom 4,722 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\$222,644,000 (2012: approximately HK\$175,373,000). Such costs accounted for 13.2% of the Group's sales revenue (2012: 13.0%) during the year ended 30 June 2013. The increase of such costs in the year ended 30 June 2013 was mainly attributable to the increase in number of workforces and their wages and salaries. 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 2013.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## DIRECTORS

### Executive Directors

**Mr. Tang Siu Kun, Stephen (鄧紹坤)**, aged 48, 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. 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 (余雨原) (formerly known as She Dan Dan (余丹丹) and She Jing Yang (余勁揚))**, aged 41, 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 56, 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 20 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. Cheng Wing Hong (鄭永康)**, aged 39, 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 16 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 51, 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**").

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**Mr. Chen Dar Cin (陳達信)**, aged 47, has 23 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 50, 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 67, 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 49, 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.



# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## Senior Management

**Mr. Feng Hong (馮洪)**, aged 53, 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 37, 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 48, 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 43, 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 52, 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 40, 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 47, 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 32, 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 42, 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 The University of Hong Kong in 2012. She has over thirteen years experience in sales and marketing.

# REPORT OF THE DIRECTORS

The directors (“**Directors**”) of Magic Holdings International Limited (the “**Company**”) are pleased to present their report and the audited financial statements of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 30 June 2013.

## 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 2013.

## RESULTS

The Group’s profit for the year ended 30 June 2013 and its state of affairs as at 30 June 2013 are set out in the financial statements on pages 45 to 114.

## FINAL DIVIDEND

At a meeting of the Board held on 18 September 2013, the Directors recommended the payment of a final dividend of HK3.0 cents per share for the year totalling approximately HK\$31,137,000 to the shareholders of the Company whose names appear on the register of members of the Company on 20 December 2013, 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 2014, 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.

# REPORT OF THE DIRECTORS

As at 30 June 2013, the net proceeds of IPO had been utilised as follows:

	Planned amount per prospectus <i>HK\$ million</i>	Actual net IPO proceeds <i>HK\$ million</i>	Amount utilised up to 30 June 2013 <i>HK\$ million</i>	Balance as at 30 June 2013 <i>HK\$ million</i>
Promotion & Marketing Efforts	182	246	246	–
Establishing New Plant in Guangzhou & Purchasing New Equipments	130	176	92	84
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	43	27
Working Capital for daily operation of the Company & other corporate purposes	52	70	70	–
	520	703	592	111

## 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 115 to 116 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 2013 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 27 and 28 to the financial statements.



# REPORT OF THE DIRECTORS

## 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 2013 are set out in note 29(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

## DISTRIBUTABLE RESERVES

At 30 June 2013, 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\$737,565,000, of which HK\$31,137,000 has been proposed as final dividend for the year after the reporting period. The amount of HK\$737,565,000 includes the Company's share premium account and capital reserve of HK\$720,749,000 in aggregate at 30 June 2013, 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 2013, the Group did not have any donation for charitable and other donations (2012: Nil).

## MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 30 June 2013, sales to the Group's largest and five largest customers accounted for approximately 9.0% and 36.7% (2012: 17.9% and 45.5% respectively) of the total sales for the Year respectively. Purchases from the Group's largest and five largest suppliers accounted for approximately 20% and 63.2% (2012: 17.8% and 61.3% respectively) of the total purchases for the Year respectively.

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

# REPORT OF THE DIRECTORS

## DIRECTORS

The Directors during the year ended 30 June 2013 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

### Non-executive Directors:

Mr. Sun Yan  
Mr. Chen Dar Cin

### 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. Tang Siu Kun Stephen, Mr. Yan Kam Tong and Professor Dong Yin Mao 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.

## INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

## DIRECTORS’ AND SENIOR MANAGEMENT’S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 17 to 19 of this report.

# REPORT OF THE DIRECTORS

## DIRECTORS' SERVICE CONTRACTS

Each of Mr. Tang Siu Kun Stephen, Mr. She Yu Yuan and Mr. Luo Yao Wen has entered into a service contract with the Company for an initial term of three years commencing from 1 September 2010, which is automatically renewable for successive terms of one year upon expiry of the then current term, until terminated by not less than three months' notice in writing served by either party on the other. 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 2013 or at any time during the year ended 30 June 2013.

## 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 2013 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in the Company.



# REPORT OF THE DIRECTORS

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

As at 30 June 2013, 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 <i>(Note 1)</i>	Approximate percentage of shareholding
Mr. Tang Siu Kun Stephen (“ <b>Mr. Tang</b> ”)	The Company	Beneficial owner	5,295,048 Ordinary shares (L)	0.51%
	The Company	Interest of controlled corporations <i>(Note 2)</i>	90,394,071 Ordinary shares (L)	8.75%
	The Company	Grantee under the share award plan <i>(Note 3)</i>	2,407,028 Ordinary shares (L)	0.23%
Mr. She Yu Yuan (“ <b>Mr. She</b> ”)	The Company	Beneficial owner	124,070,731 Ordinary shares (L)	12.02%
	The Company	Grantee under the share award plan <i>(Note 3)</i>	3,114,977 Ordinary shares (L)	0.30%
	The Company	Interest of spouse	504,175 Ordinary shares (L)	0.05%
Mr. Luo Yao Wen (“ <b>Mr. Luo</b> ”)	The Company	Beneficial owner	38,287,564 Ordinary shares (L)	3.71%
	The Company	Grantee under the share award plan <i>(Note 3)</i>	959,665 Ordinary shares (L)	0.09%
	The Company	Interest of spouse	769,446 Ordinary shares (L)	0.07%
Mr. Tang and Mr. She	The Company	Trustee <i>(Note 4)</i>	21,121,989 Ordinary shares (L)	2.05%

## REPORT OF THE DIRECTORS

Name of Director	Name of Group member/associated corporation	Capacity	Number and class of securities (Note 1)	Approximate percentage of shareholding
Professor Yang Rude ("Professor Yang")	The Company	Beneficial owner	130,000 Ordinary shares (L)	0.01%
Mr. Yan Kam Tong ("Mr. Yan")	The Company	Beneficial owner (Note 5)	360,000 Ordinary shares (L)	0.03%
Mr. Sun Yan ("Mr. Sun")	The Company	Beneficial owner	360,000 Ordinary shares (L)	0.03%

### 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 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. Among these shares, 2,407,028 shares, 3,114,977 shares, and 959,665 shares will be vested in and transferred to Mr. Tang, Mr. She and Mr. Luo respectively.
5. These shares represent the shares of the Company which Mr. Yan 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 2013, 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.

# REPORT OF THE DIRECTORS

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

As at 30 June 2013, 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
Wu Xiao Qing (Note 2)	145,192,720 (L)	Interest of spouse	14.06%
	504,175 (L)	Beneficial owner	0.05%
	503,430 (L)	Grantee under the Share award Plan (Note 3)	0.05%
MG Company Limited (Note 4)	63,301,170 (L)	Beneficial owner	6.13%
Ho Ching Han (Note 5)	116,811,108 (L)	Interest of spouse	11.31%
Atlantis Capital Holdings Limited (Note 6)	90,856,579 (L)	Interest of controlled corporation	8.80%
Liu Yang (Note 7)	90,856,579 (L)	Interest of controlled corporation	8.80%
Salata Jean Eric (Note 8)	214,451,000 (L)	Interest of controlled corporation	20.77%
Baring Private Equity Asia GP V Limited (Note 8)	214,451,000 (L)	Interest of controlled corporation	20.77%
Baring Private Equity Asia GP V LP (Note 8)	214,451,000 (L)	Interest of controlled corporation	20.77%
Baring Private Equity Asia V Holding (1) Limited (Note 8)	214,451,000 (L)	Beneficial owner	20.77%
The Baring Asia Private Equity Fund V LP (Note 8)	214,451,000 (L)	Interest of controlled corporation	20.77%
Deutsche Bank Aktiengesellschaft	276,854 (L)	Beneficial owner	0.03%
	272,054 (S)	Beneficial owner	0.03%
	63,615,056 (L)	Person having a security interest in shares	6.16%
	843,400 (S)	Person having a security interest in shares	0.08%



# REPORT OF THE DIRECTORS

## Notes:

1. The letter “L” denotes long position in the shares of the Company or the relevant associated corporation. The letter “S” denotes short position in the shares of the Company or the relevant associated corporation.
2. 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.
3. 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.
4. MG Company Limited is a company wholly-owned by Mr. Tang.
5. 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.
6. Among the 90,856,579 Shares, (i) 42,260,318 Shares are held by various portfolios managed by Atlantis, and (ii) 48,596,261 Shares are owned by a fund to which Riverwood Asset Management (Cayman) Limited is the investment manager and Atlantis is the sub-investment manager. Atlantis is a whollyowned subsidiary of Atlantis Capital Holdings Limited, an entity controlled by Yang Liu.
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 214,451,000 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 2013, 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.

# REPORT OF THE DIRECTORS

## 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 2013, 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 7.75% and 7.71% of the issued share capital of the Company as at 30 June 2013 and up to the date of this report.

## REPORT OF THE DIRECTORS

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.



## REPORT OF THE DIRECTORS

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 2013:

Grantee	Number of share options						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))
	As at 1 July 2012	Granted during the Year	Adjusted during the Year (Note (a))	Exercised during the Year	Cancelled/ Lapsed during the Year	As at 30 June 2013					
<b>Directors</b>											
Mr. Cheng	600,000	-	-	600,000	-	-	27 September 2011	27 September 2011– 26 September 2013	HK\$2.432	HK\$2.027	HK\$1.69
Professor Yang	160,000	-	-	160,000	-	-	27 September 2011	27 September 2011– 26 September 2013	HK\$2.432	HK\$2.027	HK\$1.69
Mr. Yan	360,000	-	-	-	-	360,000	27 September 2011	27 September 2011– 26 September 2013	HK\$2.432	HK\$2.027	HK\$1.69
Mr. Sun	360,000	-	-	360,000	-	-	27 September 2011	27 September 2011– 26 September 2013	HK\$2.432	HK\$2.027	HK\$1.69
<b>Other employees (In aggregate)</b>	11,910,000	-	-	10,510,000	-	1,400,000	27 September 2011	27 September 2011– 26 September 2013	HK\$2.432	HK\$2.027	HK\$1.69
<b>Others (In aggregate)</b>	15,600,000	-	-	12,000,000	-	3,600,000	27 September 2011	27 September 2011– 26 September 2013	HK\$2.432	HK\$2.027	HK\$1.69
<b>Total</b>	28,990,000	-	-	23,630,000	-	5,360,000					

*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.

# REPORT OF THE DIRECTORS

## 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: 1 July 2012

Parties: (1) Hanbul Cosmetics Co., Ltd. ("Hanbul") as supplier (Hanbul, a substantial shareholder of Magic-Hanbul Holdings Limited and a joint venture partner of the Group under MG JV Group (as defined in the prospectus of the Company dated 10 September 2010)), 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\$9.3 million, HK\$20.7 million and HK\$34.2 million for the three years ending 30 June 2015

For the year ended 30 June 2013, there were transactions of HK\$914,000 under the Exclusive Distribution Agreement.

### OEM Manufacturing Agreement

Date: 1 July 2012

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\$5.2 million, HK\$8.6 million and HK\$13.0 million for the three years ending 30 June 2015

For the year ended 30 June 2013, there were transactions of HK\$175,000 under the OEM Manufacturing Agreement.

# REPORT OF THE DIRECTORS

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 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, two 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) at US\$100,000 each which will be payable upon the completion of the assignments.

During the year ended 30 June 2013, one of the trademark assignment agreements was terminated by the aforesaid parties and the remaining trademark was registered during the year and the respective consideration of US\$100,000 (approximately HK\$780,000) has been included in "Other payables and accruals" as set out in note 25 to the financial statements.

## 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 2013.

## 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.



# REPORT OF THE DIRECTORS

## 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 35 to 42 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

18 September 2013

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE

During the year ended 30 June 2013, the Company has complied with the Corporate Governance Code (the “Code”), contained in Appendix 14 to the Listing Rules.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors and senior management of the Group in September 2010 on terms no less exacting than the required standard set out in Appendix 10 to the Listing Rules (the “Model Code”). Having made specific enquiries of all Directors and senior management of the Group, all Directors and senior management of the Group have complied with the required standard set out in the Model Code and the Company’s code of conduct regarding securities transactions by Directors and senior management of the Group during the year ended 30 June 2013 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 17 to 19 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 shall 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. 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.

# CORPORATE GOVERNANCE REPORT

## 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 2013.

The attendance record for the Board meeting during the year ended 30 June 2013 is as follows:

Directors	Meetings Attended/ Number of Meetings Held
<b>Executive Directors</b>	
Mr. Tang Siu Kun, Stephen ( <i>Chairman</i> )	4/4
Mr. She Yu Yuan	4/4
Mr. Luo Yao Wen	4/4
Mr. Cheng Wing Hong	4/4
<b>Non-executive Director</b>	
Mr. Sun Yan	3/4
Mr. Chen Dar Cin	4/4
<b>Independent Non-executive Directors</b>	
Professor Dong Yin Mao	4/4
Professor Yang Rude	4/4
Mr. Yan Kam Tong	4/4



# CORPORATE GOVERNANCE REPORT

The attendance record for the general meeting during the year ended 30 June 2013 is as follows, subsequent to 14 December 2012 there is no general meeting held:

Directors	Meetings Attended/ Number of Meetings Held
<b>Executive Directors</b>	
Mr. Tang Siu Kun, Stephen	1/1
Mr. She Yu Yuan	1/1
Mr. Luo Yao Wen	1/1
Mr. Cheng Wing Hong	1/1
<b>Non-executive Directors</b>	
Mr. Sun Yan	*0/1
Mr. Chen Dar Cin	*0/1
<b>Independent Non-executive Directors</b>	
Professor Dong Yin Mao	*0/1
Professor Yang Rude	*0/1
Mr. Yan Kam Tong	*0/1

\* *The Listing Rules Appendix 14, code provision A.6.7 stipulates non-executive Directors and independent non-executive Directors should attend general meetings and develop a balanced understanding of the views of shareholders. The Directors of the company were absent from the annual general meeting of the company held on 14 December 2012 due to other business commitment.*

## 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, experience and diversity of perspectives) 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 2013, the Nomination Committee has established a board diversity policy concerning the diversity of Board members according to the Listing Rules Appendix 14, code provision A.5.6. Diversity of board members is achieved through consideration of a number of factors including but not limited to gender, age, cultural and education background, and professional experiences. The Nomination Committee has reviewed the existing and the additional 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.

# CORPORATE GOVERNANCE REPORT

The attendance record for the Committee's meeting during the year ended 30 June 2013 is as follows:

Directors	Meetings Attended/ Number of Meetings Held
<b>Executive Directors</b>	
Mr. Tang Siu Kun Stephen ( <i>Chairman</i> )	1/1
Mr. She Yu Yuan	1/1
<b>Independent Non-executive Directors</b>	
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 2013, 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.

# CORPORATE GOVERNANCE REPORT

The attendance record for the Committee's meeting during the year ended 30 June 2013 is as follows:

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

## 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 2013, 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 2013 is as follows:

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



# CORPORATE GOVERNANCE REPORT

## 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 2013, 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 REPORT

## 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 2013 is set out below:

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

## AUDITORS' REMUNERATIONS

During the year ended 30 June 2013, the remunerations paid or to be payable to Ernst & Young in respect of statutory audit services was HK\$1,950,000 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 2013, the Directors have selected appropriate accounting policies and applied them consistently, and have prepared the financial statements on a going concern basis.

# CORPORATE GOVERNANCE REPORT

## 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 2013.

## 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 October 2012, being the date on which the Company dispatched its annual report in respect of its financial results for the second full financial year after the date of listing of the shares of the Company on the Stock Exchange.

# INDEPENDENT AUDITORS' REPORT



## 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 45 to 114, which comprise the consolidated and company statements of financial position as at 30 June 2013, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

## AUDITORS' RESPONSIBILITY

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

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



## INDEPENDENT AUDITORS' REPORT

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' 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 2013, 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  
18 September 2013

# CONSOLIDATED INCOME STATEMENT

Year ended 30 June 2013

	Notes	2013 HK\$'000	2012 HK\$'000
REVENUE	6	<b>1,690,540</b>	1,349,409
Cost of sales		<b>(404,395)</b>	(316,399)
Gross profit		<b>1,286,145</b>	1,033,010
Other income and gains	6	<b>21,713</b>	16,678
Selling and distribution expenses		<b>(933,982)</b>	(691,984)
Administrative expenses		<b>(97,442)</b>	(92,447)
PROFIT BEFORE TAX	7	<b>276,434</b>	265,257
Income tax expense	10	<b>(77,622)</b>	(65,130)
PROFIT FOR THE YEAR		<b>198,812</b>	200,127
Attributable to:			
Equity holders of the Company	11	<b>207,095</b>	204,513
Non-controlling interests		<b>(8,283)</b>	(4,386)
		<b>198,812</b>	200,127
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	13		
Basic		<b>HK20.35 cents</b>	HK20.36 cents
Diluted		<b>HK20.20 cents</b>	HK20.23 cents

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

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 30 June 2013

	2013 HK\$'000	2012 HK\$'000
PROFIT FOR THE YEAR	<b>198,812</b>	200,127
OTHER COMPREHENSIVE INCOME		
Other comprehensive income may be reclassified to income statement in subsequent periods:		
Exchange differences on translation of foreign operations	<b>29,725</b>	13,937
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>228,537</b>	214,064
Attributable to:		
Equity holders of the Company	<b>236,645</b>	218,114
Non-controlling interests	<b>(8,108)</b>	(4,050)
	<b>228,537</b>	214,064

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2013

	Notes	2013 HK\$'000	2012 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	14	<b>40,788</b>	32,344
Prepaid land lease payments	15	<b>63,670</b>	61,564
Goodwill	16	<b>14,549</b>	14,549
Intangible asset	17	<b>16,739</b>	20,445
Deferred tax assets	18	<b>432</b>	415
Prepayments and deposits	22	<b>318,481</b>	2,467
<b>Total non-current assets</b>		<b>454,659</b>	131,784
<b>CURRENT ASSETS</b>			
Inventories	20	<b>29,656</b>	26,967
Trade receivables	21	<b>419,387</b>	250,497
Prepayments, deposits and other receivables	22	<b>32,217</b>	109,010
Tax recoverable		<b>917</b>	895
Cash and cash equivalents	23	<b>965,492</b>	1,104,202
<b>Total current assets</b>		<b>1,447,669</b>	1,491,571
Assets of a subsidiary classified as held for sale	26	<b>1,212</b>	–
<b>Total current assets</b>		<b>1,448,881</b>	1,491,571
<b>CURRENT LIABILITIES</b>			
Trade payables	24	<b>64,766</b>	63,825
Other payables and accruals	25	<b>68,092</b>	37,797
Tax payable		<b>26,280</b>	23,998
<b>Total current liabilities</b>		<b>159,138</b>	125,620
Liabilities directly associated with a subsidiary classified as held for sale	26	<b>3,035</b>	–
<b>Total current liabilities</b>		<b>162,173</b>	125,620
<b>NET CURRENT ASSETS</b>		<b>1,286,708</b>	1,365,951
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>1,741,367</b>	1,497,735
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities	18	<b>4,185</b>	5,111
<b>Net assets</b>		<b>1,737,182</b>	1,492,624



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2013

	<i>Notes</i>	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
EQUITY			
<b>Equity attributable to equity holders of the Company</b>			
Issued capital	27	<b>103,253</b>	100,890
Reserves	29(a)	<b>1,629,759</b>	1,379,456
		<b>1,733,012</b>	1,480,346
<b>Non-controlling interests</b>		<b>4,170</b>	12,278
Total equity		<b>1,737,182</b>	1,492,624

**Tang Siu Kun, Stephen**  
*Director*

**She Yu Yuan**  
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 30 June 2013

	Attributable to equity holders of the Company											Total equity HK\$'000
	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 (a)	Statutory reserve funds HK\$'000 Note (b)	Retained profits HK\$'000	Exchange fluctuation reserve HK\$'000	Total HK\$'000	Non-controlling interests 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 28)	-	-	-	13,609	-	-	-	-	-	13,609	-	13,609
Share award expenses (Note 28)	-	-	22,767	-	-	-	-	-	-	22,767	-	22,767
Bonus issue of shares (Note 27)	16,698	(16,698)	-	-	-	-	-	-	-	-	-	-
Shares issued upon exercise of share options (Note 28)	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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 30 June 2013

	Attributable to equity holders of the Company											
	Issued capital	Share premium account	Share award reserve	Share option reserve	Merger reserve	Capital reserve	Statutory reserve funds	Retained profits	Exchange fluctuation reserve	Total	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
						Note (a)	Note (b)					
At 1 July 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
Share award expenses (Note 28)	-	-	17,070	-	-	-	-	-	-	17,070	-	17,070
Shares issued upon exercise of share options (Note 28)	2,363	54,462	-	(8,927)	-	-	-	-	-	47,898	-	47,898
2012 final dividend declared and paid (Note 12)	-	(36,701)	-	-	-	-	-	-	-	(36,701)	-	(36,701)
2013 interim dividend declared and paid (Note 12)	-	(12,246)	-	-	-	-	-	-	-	(12,246)	-	(12,246)
Profit for the year	-	-	-	-	-	-	-	207,095	-	207,095	(8,283)	198,812
Other comprehensive income for the year: Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	29,550	29,550	175	29,725
At 30 June 2013	103,253	604,388*	64,422*	2,032*	4,757*	100,450*	15,315*	762,432*	75,963*	1,733,012	4,170	1,737,182

\* These reserve accounts comprise the consolidated reserves of HK\$1,629,759,000 (2012: HK\$1,379,456,000) in the consolidated statement of financial position.

Notes:

- Capital reserve represents (i) excess capital paid over the issued capital of Magic Holdings Group Limited ("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.
- 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 2013

	Notes	2013 HK\$'000	2012 HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		<b>276,434</b>	265,257
Adjustments for:			
Bank interest income	6	<b>(14,078)</b>	(6,836)
Depreciation	7	<b>4,838</b>	2,845
Amortisation of prepaid land lease payments	7	<b>1,487</b>	–
Amortisation of an intangible asset	7	<b>4,121</b>	4,091
Equity-settled share award expenses	28	<b>17,070</b>	22,767
Equity-settled share option expenses	28	–	13,609
Impairment of goodwill	16	–	1,223
		<b>289,872</b>	302,956
Increase in inventories		<b>(2,689)</b>	(12,122)
Increase in trade receivables		<b>(168,890)</b>	(69,249)
Decrease/(increase) in prepayments, deposits and other receivables		<b>71,809</b>	(13,278)
Increase in trade payables		<b>941</b>	18,424
Increase in other payables and accruals		<b>30,414</b>	3,486
Exchange realignment		<b>11,818</b>	5,052
		<b>233,275</b>	235,269
Cash generated from operations		<b>233,275</b>	235,269
Bank interest received		<b>14,078</b>	6,836
Overseas tax paid		<b>(73,493)</b>	(64,523)
		<b>173,860</b>	177,582
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of items of property, plant and equipment	14	<b>(10,104)</b>	(14,311)
Proceeds from disposal of property, plant and equipment		<b>94</b>	–
Increase in prepaid land lease payments	15	<b>(2,207)</b>	(26,940)
Deposits paid for acquisition of subsidiaries	22	<b>(314,379)</b>	–
Decrease/(increase) in non-pledged deposits with original maturity of over three months when acquired	23	<b>34,790</b>	(2,422)
		<b>(291,806)</b>	(43,673)
Net cash flows used in investing activities		<b>(291,806)</b>	(43,673)



# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 30 June 2013

	Notes	2013 HK\$'000	2012 HK\$'000
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issuance of shares of the Company		<b>47,898</b>	14,209
Dividend paid		<b>(48,947)</b>	(30,057)
Net cash flows used in financing activities		<b>(1,049)</b>	(15,848)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at beginning of year		<b>981,533</b>	855,157
Effect of foreign exchange rate changes, net		<b>15,305</b>	8,315
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>877,843</b>	981,533
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	23	<b>467,297</b>	722,192
Cash and bank balances included in a subsidiary classified as held for sale	26	<b>230</b>	–
Non-pledged time deposits with original maturity of over three months when acquired	23	<b>87,879</b>	122,669
Non-pledged time deposits with original maturity of less than three months when acquired	23	<b>410,316</b>	259,341
Cash and cash equivalents as stated in the consolidated statement of financial position		<b>965,722</b>	1,104,202
Less: Non-pledged time deposits with original maturity of over three months when acquired	23	<b>(87,879)</b>	(122,669)
Cash and cash equivalents as stated in the consolidated statement of cash flows		<b>877,843</b>	981,533

# STATEMENT OF FINANCIAL POSITION

30 June 2013

	<i>Notes</i>	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Investments in subsidiaries	19	<b>116,540</b>	116,540
<b>CURRENT ASSETS</b>			
Amounts due from subsidiaries	19	<b>370,933</b>	188,158
Prepayments, deposits and other receivables	22	<b>301</b>	1,845
Cash and cash equivalents	23	<b>357,522</b>	532,640
Total current assets		<b>728,756</b>	722,643
<b>CURRENT LIABILITIES</b>			
Amount due to subsidiaries	19	<b>440</b>	–
Other payables and accruals	25	<b>2,006</b>	2,741
Total current liabilities		<b>2,446</b>	2,741
<b>NET CURRENT ASSETS</b>		<b>726,310</b>	719,902
<b>Net assets</b>		<b>842,850</b>	836,442
<b>EQUITY</b>			
Issued capital	27	<b>103,253</b>	100,890
Reserves	29(b)	<b>739,597</b>	735,552
Total equity		<b>842,850</b>	836,442

**Tang Siu Kun, Stephen**  
*Director*

**She Yu Yuan**  
*Director*

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 1. CORPORATE INFORMATION

Magic Holdings International Limited ("**MHIL**") 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 the manufacture, sales and marketing of facial masks and other skincare products in Mainland China.

The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Pursuant to the joint announcement (the "**Joint Announcement**") between the Company and L'Oréal S.A. ("**the Offeror**") dated 15 August 2013, on 12 August 2013, the Offeror requested that the board of directors of the Company put forward the proposal (the "**Proposal**") to the shareholders of the Company for a proposed acquisition of all of the issued shares of the Company ("**Shares**") by way of a scheme of arrangement under Section 86 of the Companies Law (2012 Revision), as consolidated and revised, of the Cayman Islands ("**the Scheme**"). Details of the Proposal and the Scheme are set out in the Joint Announcement.

The making of the Proposal is, and the implementation of the Scheme will be, conditional upon the satisfaction or waiver, as applicable, of the pre-conditions and conditions as described in the Joint Announcement. Such pre-conditions and conditions to the Proposal have not been satisfied up to the date of approval of the financial statements.

Upon the Scheme becoming effective, it is anticipated that listing of the Shares on the Stock Exchange will be withdrawn and terminated.

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 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. A subsidiary held for sale is stated at the lower of its carrying amount and fair value less costs to sell as further explained in note 3. 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 2013. 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 it results in a deficit balance.

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

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



# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 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.

HKAS 1 Amendments	Amendments to HKAS 1 Presentation of Financial Statements — <i>Presentation of Items of Other Comprehensive Income</i>
HKAS 12 Amendments	Amendments to HKAS 12 <i>Income Taxes — Deferred Tax: Recovery of Underlying Assets</i>

Other than as further explained below regarding the impact of amendments to HKAS 1, the adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

The HKAS 1 Amendments change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point of time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance.

## 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 <i>First-time Adoption of Hong Kong Financial Reporting Standards — Government Loans</i> <sup>1</sup>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities</i> <sup>1</sup>
HKFRS 9	<i>Financial Instruments</i> <sup>3</sup>
HKFRS 10	<i>Consolidated Financial Statements</i> <sup>1</sup>
HKFRS 11	<i>Joint Arrangements</i> <sup>1</sup>
HKFRS 12	<i>Disclosure of Interests in Other Entities</i> <sup>1</sup>
HKFRS 13	<i>Fair Value Measurement</i> <sup>1</sup>
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12: <i>Transition Guidance</i> <sup>1</sup>
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) — <i>Investment Entities</i> <sup>2</sup>
HKAS 19 (2011)	<i>Employee Benefits</i> <sup>1</sup>
HKAS 27 (2011)	<i>Separate Financial Statements</i> <sup>1</sup>
HKAS 28 (2011)	<i>Investments in Associates and Joint Ventures</i> <sup>1</sup>
HKAS 32 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities</i> <sup>2</sup>
HKAS 36 Amendments	Amendments to HKAS 36 <i>Impairment of Assets — Recoverable Amount Disclosures for Non-Financial Assets</i> <sup>2</sup>
HK(IFRIC)-Int 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i> <sup>1</sup>
HK(IFRIC)-Int 21	<i>Levies</i> <sup>2</sup>
<i>Annual Improvements 2009–2011 Cycle</i>	Amendments to a number of HKFRSs issued in June 2012 <sup>1</sup>

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(continued)

- <sup>1</sup> Effective for annual periods beginning on or after 1 January 2013
- <sup>2</sup> Effective for annual periods beginning on or after 1 January 2014
- <sup>3</sup> Effective for annual periods beginning on or after 1 January 2015

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. The Group is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on the Group's results of operations and financial position.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

### 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.

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 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 to measure 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 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-related 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 previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in the income statement.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in the income statement or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the 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 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.

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.

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### **Business combinations and goodwill** (continued)

Where goodwill has been allocated to a cash-generating unit (or 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 the disposal. Goodwill disposed in these circumstances is measured based on the relative value of the disposed operation 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, goodwill and a subsidiary classified as held for sale), 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 an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 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).



# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 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 including 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.

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 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 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.

### Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

### 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.

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Leases (continued)

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.

### 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.

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 by 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 other income and gains 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.

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 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 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.

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.

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### **Impairment of financial assets** (continued)

#### *Financial assets carried at amortised cost* (continued)

The carrying amount of the asset is reduced through the use of an allowance account and 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 write-off is later recovered, the recovery is credited to other expenses in the income statement.

### **Financial liabilities**

The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

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

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

### **Derecognition of financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.



# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### Fair value of financial instruments

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

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

### Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

### 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.

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 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, 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.

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 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 over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

### Share-based payments

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 payments, 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 binominal option pricing model, further details of which are given in note 28 to the consolidated financial statements.

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Share-based payments (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 payments, 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.

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 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 prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in 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 translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the 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 prevailing 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.



# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 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 their accompanying disclosure, and the disclosures of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment 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.

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 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 2013 was HK\$14,549,000 (2012: HK\$14,549,000). More details are given in note 16 to the consolidated financial statements.

#### *Impairment of an intangible asset*

The Group performs annual assessments on whether there has been impairment of intangible 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 2013 was HK\$16,739,000 (2012: HK\$20,445,000). 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 28 to the consolidated financial statements.

#### *Income taxes*

Significant management judgement on the future tax treatment of certain transactions are required in determining income tax provisions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of these transactions is reconsidered periodically to take into account all changes in tax legislation.

#### *Deferred tax*

Deferred tax are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 18 to the financial statements.

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 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, 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

	2013 HK\$'000	2012 HK\$'000
Customer A*	N/A	241,445
Customer B*	N/A	137,769
	N/A	379,214

\* During the year ended 30 June 2013, as no revenue derived from an individual customer of the Group has accounted for over 10% of the Group's total revenue, no information about major customers is presented under HKFRS 8.

## 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:

	2013 HK\$'000	2012 HK\$'000
<b>Revenue</b>		
Sale of goods	1,690,540	1,349,409
<b>Other income and gains</b>		
Bank interest income	14,078	6,836
Foreign exchange differences, net	7,635	9,842
	21,713	16,678
	1,712,253	1,366,087

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 7. PROFIT BEFORE TAX

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

	<i>Notes</i>	<b>2013</b> <i>HK\$'000</i>	<b>2012</b> <i>HK\$'000</i>
Cost of inventories sold		<b>404,395</b>	316,399
Depreciation*	14	<b>4,838</b>	2,845
Amortisation of prepaid land lease payments	15	<b>1,487</b>	–
Amortisation of an intangible asset*	17	<b>4,121</b>	4,091
Minimum lease payments under operating leases on land and buildings		<b>7,616</b>	5,102
Auditors' remuneration		<b>1,950</b>	1,700
Employee benefit expenses* (including directors' remuneration ( <i>note 8</i> )):			
Wages and salaries		<b>84,687</b>	57,799
Retirement benefit scheme contributions		<b>10,226</b>	5,409
Equity-settled share award expenses	28	<b>17,070</b>	22,767
Equity-settled share option expenses	28	–	7,737
		<b>111,983</b>	93,712
Equity-settled share option expenses — others		–	5,872
Impairment of goodwill**		–	1,223
Foreign exchange differences, net		<b>(7,635)</b>	(9,842)

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 7. PROFIT BEFORE TAX (continued)

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

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

	2013 HK\$'000	2012 HK\$'000
Depreciation	1,573	945
Amortisation of an intangible asset	4,121	4,091
Employee benefit expenses	23,145	17,880
	<b>28,839</b>	22,916

\*\* Impairment of goodwill is included in "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:

	2013 HK\$'000	2012 HK\$'000
Fees	592	882
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	5,308	3,878
Retirement benefit scheme contributions	88	73
Equity-settled share award expenses (note 28)	12,895	20,447
Equity-settled share option expenses (note 28)	–	544
	<b>18,883</b>	25,824



# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 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 28)	Equity- settled share option expenses HK\$'000 (Note 28)	Total remuneration HK\$'000
<b>30 June 2013</b>						
Executive directors:						
Mr. Tang Siu Kun Stephen ("Mr. Tang")	–	979	12	4,789	–	5,780
Mr. She Yu Yuan ("Mr. She")	–	1,850	22	6,197	–	8,069
Mr. Luo Yao Wen ("Mr. Luo")	–	1,469	39	1,909	–	3,417
Mr. Cheng Wing Hong (appointed on 1 July 2012)	–	1,010	15	–	–	1,025
Non-executive directors:						
Mr. Sun Yan ("Mr. Sun")	148	–	–	–	–	148
Mr. Chen Dar Cin (appointed on 1 July 2012)	–	–	–	–	–	–
Independent non-executive directors:						
Mr. Yan Kam Tong ("Mr. Yan")	148	–	–	–	–	148
Prof. Dong Yin Mao ("Prof. Dong")	148	–	–	–	–	148
Prof. Yang Rude ("Prof. Yang")	148	–	–	–	–	148
	<b>592</b>	<b>5,308</b>	<b>88</b>	<b>12,895</b>	<b>–</b>	<b>18,883</b>

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 8. DIRECTORS' REMUNERATION (continued)

	Fees <i>HK\$'000</i>	Salaries, bonuses, allowances and benefits in kind <i>HK\$'000</i>	Retirement benefit scheme contributions <i>HK\$'000</i>	Equity- settled share award expenses <i>HK\$'000</i> <i>(Note 28)</i>	Equity- settled share option expenses <i>HK\$'000</i> <i>(Note 28)</i>	Total remuneration <i>HK\$'000</i>
30 June 2012						
Executive directors:						
Mr. Tang	–	884	12	7,593	–	8,489
Mr. She	–	1,669	22	9,827	–	11,518
Mr. Luo	–	1,325	39	3,027	–	4,391
Mr. Zhang Kun Mou (resigned on 30 June 2012)	147	–	–	–	–	147
Mr. Chen Lei (resigned on 30 June 2012)	147	–	–	–	–	147
Non-executive director:						
Mr. Sun Yan	147	–	–	–	136	283
Independent non-executive directors:						
Mr. Yan	147	–	–	–	136	283
Prof. Dong	147	–	–	–	136	283
Prof. Yang	147	–	–	–	136	283
	882	3,878	73	20,447	544	25,824

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

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2012: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining one (2012: two) highest paid employee who is not a director of the Company are as follows:

	2013 HK\$'000	2012 HK\$'000
Salaries, allowances and benefits in kind	763	2,392
Retirement benefit scheme contributions	20	35
Equity-settled share award expenses	131	200
Equity-settled share option expenses	–	903
	<b>914</b>	<b>3,530</b>

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

	Number of employees	
	2013	2012
Nil to HK\$1,000,000	1	–
HK\$1,000,001 to HK\$1,500,000	–	–
HK\$1,500,001 to HK\$2,000,000	–	2
	<b>1</b>	<b>2</b>

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 (2012: Nil).

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 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 and 西藏嘉燦商貿有限公司 were qualified as 鼓勵類產業企業 and Tax Incentives for Investment in Western Regions, respectively, and hence are subject to a preferential corporate income tax ("**CIT**") rate of 15%.

	2013 HK\$'000	2012 HK\$'000
Current — Mainland China		
Charge for the year	<b>78,669</b>	65,284
Deferred ( <i>note 18</i> )	<b>(1,047)</b>	(154)
<b>Total tax charge for the year</b>	<b>77,622</b>	65,130

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:

	2013 HK\$'000	2012 HK\$'000
Profit before tax	<b>276,434</b>	265,257
Tax at the applicable tax rates	<b>70,734</b>	69,306
Lower tax rate for specific provinces or enacted by local authority	<b>(49,719)</b>	(35,196)
Income not subject to tax	<b>(7,970)</b>	(2,388)
Expenses not deductible for tax	<b>50,684</b>	5,320
Tax loss not recognised	<b>13,893</b>	28,088
<b>Tax charge at the Group's effective tax rate</b>	<b>77,622</b>	65,130

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 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 2013 includes a profit of HK\$7,457,000 (2012: loss of HK\$3,984,000) which has been dealt with in the financial statements of the Company (note 29).

## 12. DIVIDENDS

	2013 HK\$'000	2012 HK\$'000
Dividends paid:		
Final dividend in respect of the financial year ended 30 June 2012		
— HK3.6 cents per ordinary share (2012: 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 (the “ <b>Bonus Issue</b> ”))	36,701	30,057
Interim dividend in respect of the period ended 31 December 2012		
— HK1.2 cents per ordinary share (2012: Nil)	12,246	—
Proposed dividend:		
Final	31,137	36,320

The directors recommend the payment of dividend of HK\$31,137,000 (approximately HK3.0 cents per share) for the year. The dividend payable was not reflected in the financial statements for the year ended 30 June 2013.

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 13 December 2013. These financial statements do not reflect the dividend payable.

The proposed final dividend of HK\$36,320,000, representing approximately HK3.6 cents per share, for the year ended 30 June 2012 was approved by the Company's shareholders at the Company's annual general meeting on 14 December 2012. A final dividend of HK3.6 cents per share for the year ended 30 June 2012 was satisfied by cash payment. The dividend payable was not reflected in the financial statements as at 30 June 2012.



# NOTES TO FINANCIAL STATEMENTS

30 June 2013

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to equity holders of the Company, and the weighted average number of ordinary shares of 1,017,555,000 (2012: 1,004,240,000) in issue during the year.

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

	2013 HK\$'000	2012 HK\$'000
Earnings:		
Profit for the year attributable to equity holders of the Company	<b>207,095</b>	204,513

	'000	'000
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<b>1,017,555</b>	1,004,240
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	<b>7,816</b>	6,552
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<b>1,025,371</b>	1,010,792

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 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
<b>30 June 2013</b>						
Cost:						
At 1 July 2012	14,107	8,924	10,612	3,488	1,220	38,351
Additions	457	8,316	707	2,330	761	12,571
Disposals	-	-	(137)	-	-	(137)
Exchange realignment	338	338	156	118	40	990
At 30 June 2013	14,902	17,578	11,338	5,936	2,021	51,775
Accumulated depreciation:						
At 1 July 2012	163	2,106	3,537	201	-	6,007
Depreciation charge for the year	715	1,796	1,441	886	-	4,838
Disposals	-	-	(43)	-	-	(43)
Exchange realignment	15	77	75	18	-	185
At 30 June 2013	893	3,979	5,010	1,105	-	10,987
Net book value:						
At 30 June 2013	14,009	13,599	6,328	4,831	2,021	40,788

Included in "plant and machinery" is a machinery of RMB2,012,000 (approximately HK\$2,467,000), which was transferred from "deposits and other receivables" during the year ended 30 June 2013 (note 22).

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 14. PROPERTY, PLANT AND EQUIPMENT (continued)

### Group (continued)

	Buildings <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures, equipment and motor vehicles <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
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 ended 30 June 2012 (note 22).

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

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 15. PREPAID LAND LEASE PAYMENTS

### Group

	2013 HK\$'000	2012 HK\$'000
Carrying amount at beginning of year	63,029	–
Additions*	2,207	63,060
Amortisation during the year	(1,487)	–
Exchange realignment	1,486	(31)
Carrying amount at end of year	65,235	63,029
Current portion included in prepayments, deposits and other receivables	(1,565)	(1,465)
Non-current portion	63,670	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 ended 30 June 2012 (note 22).

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

## 16. GOODWILL

### Group

	2013 HK\$'000	2012 HK\$'000
<b>Cost</b>		
Balance at beginning of year and end of year	15,772	15,772
<b>Accumulated impairment losses</b>		
Balance at beginning of year	(1,223)	–
Impairment loss recognised in the year	–	(1,223)
Balance at end of year	(1,223)	(1,223)
<b>Carrying amount</b>		
Balance at 30 June	14,549	14,549

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 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 during the year ended 30 June 2012, consider that goodwill of HK\$1,223,000 arising from the acquisition of Guangdong Qunhe was impaired during the year ended 30 June 2012.

#### *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 the budget years. The discount rate applied to cash flow projections was 14.4% (2012: 14.75%) for the year ended 30 June 2013, 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 2013 was not impaired.



# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 17. INTANGIBLE ASSET

### Group

	Trade name HK\$'000
Cost:	
At 1 July 2011	36,074
Exchange realignment	727
At 30 June 2012 and 1 July 2012	36,801
Exchange realignment	862
At 30 June 2013	37,663
Accumulated amortisation:	
At 1 July 2011	12,025
Provided during the year	4,091
Exchange realignment	240
At 30 June 2012 and 1 July 2012	16,356
Provided during the year	4,121
Exchange realignment	447
At 30 June 2013	20,924
Net carrying amount:	
At 30 June 2013	16,739
At 30 June 2012	20,445

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 18. DEFERRED TAX

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

### Group

	Fair value adjustments arising from acquisition of subsidiaries <i>HK\$'000</i>
At 1 July 2011	6,012
Deferred tax credited to the consolidated income statement ( <i>note 10</i> )	(1,022)
Exchange realignment	121
At 30 June 2012 and 1 July 2012	5,111
Deferred tax credited to the consolidated income statement ( <i>note 10</i> )	(1,030)
Exchange realignment	104
At 30 June 2013	4,185

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

	Deductible temporary difference <i>HK\$'000</i>
At 1 July 2011	1,283
Deferred tax debited to the consolidated income statement ( <i>note 10</i> )	(868)
At 30 June 2012 and 1 July 2012	415
Deferred tax credited to the consolidated income statement ( <i>note 10</i> )	17
At 30 June 2013	432

The Group has tax losses arising in Mainland China of HK\$186,567,000 (2012: HK\$130,600,000) 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 subsidiaries that have been loss making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 18. DEFERRED TAX (continued)

During the year ended 30 June 2013, 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\$898,484,000 (2012: HK\$654,409,000) at 30 June 2013.

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

## 19. INVESTMENTS IN SUBSIDIARIES

	Company	
	2013 HK\$'000	2012 HK\$'000
Unlisted investments, at cost	<b>116,540</b>	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		Principal activities
			2013	2012	
<b>Directly held</b>					
Magic Holdings	The British Virgin Islands (the "BVI")	US\$22,883	<b>100</b>	100	Investment holding
<b>Indirectly held</b>					
廣東群禾藥業有限公司 ("Guangdong Qunhe")** (Note (1))	PRC/Mainland China	RMB10,000,000	<b>100</b>	100	Trading of facial masks and other skincare products

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 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		Principal activities
			2013	2012	
<b>Indirectly held (continued)</b>					
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
南京芊達化妝品有限公司 ("芊達")**	PRC/Mainland China	RMB5,000,000	100	100	Trading of facial masks and other skincare products
廣州美即化妝品有限公司 ("Guangzhou Magic")**	PRC/Mainland China	RMB40,000,000	100	100	Manufacture and sale of facial masks and other skincare products
廣州晟豐源資產管理有限公司 ("晟豐源")**	PRC/Mainland China	RMB500,000	100	100	Investment holding
廣州群禾化妝品有限公司 ("Guangzhou Qunhe")*	PRC/Mainland China	RMB20,000,000	100	N/A	Trading of facial masks and other skincare products
廣州市中合美容化妝品有限 公司("中合美")**	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")* (Note (2))	PRC/Mainland China	HK\$291,460,000	100	100	Investment holding

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 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		Principal activities
			2013	2012	
<b>Indirectly held (continued)</b>					
西藏嘉燦商貿有限公司 ("西藏嘉燦")*	PRC/Mainland China	RMB5,000,000	<b>100</b>	N/A	Not yet commenced business
Magic-Hanbul Holdings Limited ("MG BVI")	The BVI/Hong Kong	US\$2,950,000	<b>51</b>	51	Investment holding
Magic-Hanbul International Limited ("MG HK")	Hong Kong	HK\$23,000,000	<b>51</b>	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	<b>51</b>	51	Sale of skincare products and not yet commenced business

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

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

### Notes:

- (1) During the year, the assets and liabilities of Guangdong Qunhe were classified as a subsidiary classified as held for sale. Further details are set out in notes 26 and 36(a) to the financial statements.
- (2) During the year ended 30 June 2013, the registered capital of MG Bio-tech has been increased from HK\$168,000,000 to HK\$291,460,000, which has been fully paid as at 30 June 2013.

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.



# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 20. INVENTORIES

	Group	
	2013	2012
	HK\$'000	HK\$'000
Raw materials	<b>7,699</b>	11,170
Finished goods	<b>21,957</b>	15,797
	<b>29,656</b>	26,967

## 21. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for certain 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 2013 were amounts of HK\$419,387,000 (2012: HK\$245,953,000), 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. At the end of the reporting period, the Group has certain concentrations of credit risk as 20.9% (2012: 9.8%) and 39.4% (2012: 37.3%) of the total accounts receivable were due from the largest customer and the five largest customers, respectively.

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 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 2013 HK\$'000	2012 HK\$'000
1 to 180 days	<b>419,387</b>	249,108
Over 180 days	–	1,389
	<b>419,387</b>	250,497

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

	Group 2013 HK\$'000	2012 HK\$'000
Neither past due nor impaired	<b>419,387</b>	249,108
Over 180 days past due	–	1,389
	<b>419,387</b>	250,497

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.

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Prepayments*	<b>318,605</b>	1,636	<b>86</b>	86
Prepaid sales and promotional expenses	<b>15,873</b>	101,584	–	–
Deposits and other receivables**	<b>16,220</b>	8,257	<b>215</b>	1,759
	<b>350,698</b>	111,477	<b>301</b>	1,845
Less: Non-current portion	<b>(318,481)</b>	(2,467)	–	–
	<b>32,217</b>	109,010	<b>301</b>	1,845

At 30 June 2013, 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.

\* At 30 June 2013, included in the prepayments is RMB250,000,000 (approximately HK\$314,379,000) paid for the acquisition of the entire issued share capital of Apex Rich Enterprises Limited (the "**Acquisition**"). The Acquisition was subsequently completed on 29 July 2013. Further details of the Acquisition are set out in note 36(b) to the financial statements.

\*\* Included in the "deposits and other receivables" as at 30 June 2012 was a deposit paid for acquisition of a machinery of RMB2,012,000 (approximately HK\$2,467,000) (note 14), which was transferred to "plant and machinery" included in property, plant and equipment during the year.

Included in "deposits and other receivables" as at 30 June 2011 was a deposit paid for acquisition of a land use right of a piece of land in Guangzhou and a new office building in Guangzhou of RMB11,950,000 (approximately HK\$14,666,000) and RMB22,748,000 (approximately HK\$27,919,000), respectively. During the year ended 30 June 2012, RMB5,268,000 (approximately HK\$6,465,000) (note 14) and RMB29,430,000 (approximately HK\$36,120,000) (note 15) were transferred to "buildings" included in property, plant and equipment, and prepaid land lease payments, respectively.

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Cash and bank balances	<b>467,297</b>	722,192	<b>226,674</b>	409,971
Non-pledged time deposits with original maturity of over three months when acquired	<b>87,879</b>	122,669	–	122,669
Non-pledged time deposits with original maturity of less than three months when acquired	<b>410,316</b>	259,341	<b>130,848</b>	–
Cash and cash equivalents	<b>965,492</b>	1,104,202	<b>357,522</b>	532,640

At 30 June 2013, the Group's and the Company's cash and bank balances denominated in Renminbi ("RMB") amounted to approximately HK\$869,008,000 (2012: HK\$1,005,559,000) and HK\$271,295,000 (2012: HK\$461,821,000), 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	
	2013 HK\$'000	2012 HK\$'000
Within 90 days	<b>64,766</b>	63,825

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

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 25. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2013	2012	2013	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other payables	<b>44,180</b>	22,196	–	179
Accruals and other liabilities	<b>23,912</b>	15,601	<b>2,006</b>	2,562
	<b>68,092</b>	37,797	<b>2,006</b>	2,741

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

## 26. A SUBSIDIARY CLASSIFIED AS HELD FOR SALE

On 17 June 2013, 廣州美即化妝品有限公司 (“廣州美即”), a wholly-owned subsidiary, and three independent third parties (collectively the “**Purchasers**”), entered into a sale and purchase agreement (the “**Agreement**”). Pursuant to the Agreement, 廣州美即 shall dispose of and the Purchasers shall acquire the entire interests in Guangdong Qunhe (the “**Subsidiary**”) for a cash consideration of RMB10,000,000 (approximately HK\$12,561,000).

As at 30 June 2013, the Agreement has not yet been completed. In accordance with HKFRS 5 “Non-current assets held for sales and discontinued operations”, the assets and liabilities of the Subsidiary have been presented as assets and liabilities of a subsidiary classified as held for sale under current assets and current liabilities, respectively.

The Share Purchase Agreement was subsequently completed on 12 July 2013 and management has estimated a gain on disposal of Guangdong Qunhe of approximately HK\$24,927,000 and further details set out in the note 36 to the financial statements.



# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 26. A SUBSIDIARY CLASSIFIED AS HELD FOR SALE (continued)

The major classes of the assets and liabilities of the Subsidiary classified as held for sale, which were included in the consolidated statement of financial position of the Group as at 30 June 2013, are as follows:

	2013 HK\$'000
Assets	
Prepayments, deposits and other receivables	982
Cash and cash equivalents	230
<b>Assets of a subsidiary classified as held for sale</b>	<b>1,212</b>
Liabilities	
Other payables and accruals	(119)
Tax payable	(2,916)
<b>Liabilities directly associated with a subsidiary classified as held for sale</b>	<b>(3,035)</b>
Equity	
Exchange reserve recognised directly in equity associated with a subsidiary classified as held for sale	(23,779)

The Subsidiary had amounts due from Group companies of HK\$13,236,000, which were eliminated on consolidation, at 30 June 2013.

## 27. SHARE CAPITAL

### Shares

	2013 HK\$'000	2012 HK\$'000
Authorised:		
2,000,000,000 (2012: 2,000,000,000) ordinary shares of HK\$0.1 each	200,000	200,000
Issued and fully paid:		
1,032,532,736 (2012: 1,008,902,736) ordinary shares of HK\$0.1 each	103,253	100,890

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 27. SHARE CAPITAL (continued)

### Shares (continued)

The movements of issued share capital during the years ended 30 June 2012 and 2013 were as follows:

	Notes	Number of ordinary shares	Nominal value of ordinary shares HK\$'000
At 1 July 2011		834,910,614	83,491
Bonus issue	(a)	166,982,122	16,698
Shares issued upon exercise of share options	(b)	7,010,000	701
At 30 June 2012		1,008,902,736	100,890
Shares issued upon exercise of share options	(c)	23,630,000	2,363
At 30 June 2013		1,032,532,736	103,253

#### Notes:

- (a) 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 was credited as fully paid by way of capitalisation of an amount in the share premium account of the Company.
- (b) During the year ended 30 June 2012, the subscription rights attaching to 7,010,000 share options were exercised at the subscription prices 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.
- (c) During the year ended 30 June 2013, the subscription rights attaching to 23,630,000 share options were exercised at the subscription price of HK\$2.027 per share, resulting in the issue of 23,630,000 shares of HK\$0.1 each for a total cash consideration, before expenses, of HK\$47,898,000, of which HK\$2,363,000 was credited to share capital and HK\$45,535,000 was credited to the share premium account. An amount of HK\$8,927,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.

### Share awards and share option scheme

Details of the share award plan and share option scheme are included in note 28 to the consolidated financial statements.

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 28. 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 was 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.

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 28. 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 award within three business days in writing after the receipt of such notice. There is no other performance target required except the eligible participant remained as an employee of the Group. Among the 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)
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)

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 28. SHARE AWARD PLAN AND SHARE OPTION SCHEME (continued)

### Share award plan (continued)

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.



# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 28. 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)
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)

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 28. 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 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.

During the year ended 30 June 2013, net share award expenses of HK\$17,070,000 (2012: HK\$22,767,000) were charged to the consolidated income statement, of which HK\$4,789,000 (2012: HK\$7,593,000), HK\$6,197,000 (2012: HK\$9,827,000) and HK\$1,909,000 (2012: HK\$3,027,000) were included in the directors' remuneration to Mr. Tang, Mr. She and Mr. Luo, respectively (note 8).

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 28. SHARE AWARD PLAN AND SHARE OPTION SCHEME (continued)

### 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.

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.

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 28. SHARE AWARD PLAN AND SHARE OPTION SCHEME (continued)

### Share option scheme (continued)

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

	Weighted average exercise price <i>HK\$ per share</i>	Number of options <i>'000</i>
At 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 and 1 July 2012	2.027	28,990
Exercised during the year	2.027	(23,630)
At 30 June 2013	2.027	5,360

\* 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\$3.81 per share (2012: HK\$3.38 per share).

During the year ended 30 June 2013, 23,630,000 (2012: 7,010,000) share options were exercised, which resulted in the issue of 23,630,000 (2012: 7,010,000) ordinary shares of the Company, and new share capital of HK\$2,363,000 (2012: HK\$701,000) and share premium account of HK\$54,462,000 (2012: HK\$16,158,000) (before issue expenses), as further detailed in notes 27 and 29(b) to the financial statements.

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

Number of options <i>'000</i>	Exercise price* <i>HK\$ per share</i>	Exercise period
5,360	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.

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 28. SHARE AWARD PLAN AND SHARE OPTION SCHEME (continued)

### Share option scheme (continued)

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 pattern 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.

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

At the end of the reporting period, the Company had 5,360,000 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 5,360,000 additional ordinary shares of the Company and additional share capital of HK\$536,000 and share premium account of HK\$10,329,000 (before issue expenses).

Subsequent to the end of the reporting period and up to the date of approval of these financial statements, the Company had no share options outstanding under the Share Option Scheme.

## 29. 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.



# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 29. RESERVES (continued)

### (b) Company

	Share premium account <i>HK\$'000</i>	Capital reserve* <i>HK\$'000</i>	Share option reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 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 ( <i>Note 12</i> )	(30,057)	–	–	–	(30,057)
Bonus issue of shares ( <i>Note 28</i> )	(16,698)	–	–	–	(16,698)
Equity-settled share option arrangements ( <i>Note 28</i> )	–	–	13,609	–	13,609
Shares issued upon exercise of share options ( <i>Note 28</i> )	16,158	–	(2,650)	–	13,508
At 30 June 2012 and 1 July 2012	598,873	116,361	10,959	9,359	735,552
Profit and total comprehensive income for the year	–	–	–	7,457	7,457
2012 final dividend declared and paid ( <i>Note 12</i> )	(36,701)	–	–	–	(36,701)
2013 interim dividend declared and paid ( <i>Note 12</i> )	(12,246)	–	–	–	(12,246)
Shares issued upon exercise of share options ( <i>Note 28</i> )	54,462	–	(8,927)	–	45,535
At 30 June 2013	604,388	116,361	2,032	16,816	739,597

\* *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.*

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 30. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions:

- (i) During the year ended 30 June 2013, RMB2,012,000 (approximately HK\$2,467,000) of the deposit paid for acquisition of a machinery at 30 June 2012 was transferred to “plant and machinery” included in property, plant and equipment. Further details are set out in notes 14 and 22 to the financial statements.
- (ii) 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 ended 30 June 2012. Further details are set out in notes 14, 15 and 22 to the financial statements.
- (iii) 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 27 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 six 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 2013, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2013	2012
	HK\$'000	HK\$'000
Within one year	<b>6,896</b>	4,920
In the second to fifth years, inclusive	<b>6,486</b>	5,654
After five years	<b>497</b>	1,146
	<b>13,879</b>	11,720

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 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	
	2013	2012
	HK\$'000	HK\$'000
Contracted, but not provided for:		
Acquisition of trademarks*	–	1,560
Acquisition of Apex Rich Enterprises Limited (“Apex Rich”)**	<b>188,312</b>	–
Purchase of property, plant and equipment	<b>567</b>	274
	<b>188,879</b>	1,834

\* 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, two 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) at US\$100,000 each which will be payable upon the completion of the assignments.

During the year ended 30 June 2013, one of the trademark assignment agreements was terminated by the aforesaid parties and the remaining trademark was registered during the year and the respective consideration of US\$100,000 (approximately HK\$780,000) has been included in “Other payables and accruals” (note 25 to the financial statements).

\*\* At the end of the reporting period, the Group had contracted for capital commitments in respect of the acquisition of Apex Rich amounting to RMB150,000,000 (approximately HK\$188,312,000).

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 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:

	Notes	2013 HK\$'000	2012 HK\$'000
Purchases of products from Hanbul	(i)	<b>1,089</b>	2,708
Trademark assignment payable to Hanbul	(ii)	<b>780</b>	–

Notes:

- (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.
- (ii) On 28 April 2011, a trademark assignment agreement was entered into by the Group and Hanbul Group, for a trademark to be assigned to the Group at a consideration of US\$100,000 (approximately HK\$780,000) which will be payable upon the completion of the assignment. During the year ended 30 June 2013, the assignment of the trademark was completed and the consideration of US\$100,000 (approximately HK\$780,000) has been included in "Other payables and accruals" (note 25 to the financial statements).

The purchases of products from Hanbul also constituted continuing 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.

### (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.

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 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*

	2013 HK\$'000	2012 HK\$'000
Trade receivables	<b>419,387</b>	250,497
Financial assets included in prepayments, deposits and other receivables	<b>1,131</b>	2,171
Cash and cash equivalents	<b>965,492</b>	1,104,202
	<b>1,386,010</b>	1,356,870

#### *Financial liabilities at amortised cost*

	2013 HK\$'000	2012 HK\$'000
Trade payables	<b>64,766</b>	63,825
Financial liabilities included in other payables and accruals	<b>33,299</b>	7,239
	<b>98,065</b>	71,064



# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 34. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

### Company

#### *Financial assets — loans and receivables*

	2013 HK\$'000	2012 HK\$'000
Amounts due from subsidiaries	<b>370,493</b>	188,158
Financial assets included in prepayments, deposits and other receivables	<b>215</b>	1,759
Cash and cash equivalents	<b>357,522</b>	532,640
	<b>728,230</b>	722,557

#### *Financial liabilities at amortised cost*

	2013 HK\$'000	2012 HK\$'000
Financial liabilities included in other payables and accruals	<b>2,006</b>	2,741

## 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.

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 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.

	Increase/ (decrease) in percentage points	Group Increase/ (decrease) in net profit <i>HK\$'000</i>	Company Increase/ (decrease) in net profit <i>HK\$'000</i>
<b>2013</b>			
RMB	<b>1%</b>	<b>8,196</b>	<b>3,575</b>
RMB	<b>(1%)</b>	<b>(8,196)</b>	<b>(3,575)</b>
 2012			
RMB	1%	9,658	5,326
RMB	(1%)	(9,658)	(5,326)

### 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 Hong Kong dollar.

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.

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 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 dollar 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 <i>HK\$'000</i>	Company Increase/ (decrease) in net profit <i>HK\$'000</i>
<b>2013</b>			
If the Hong Kong dollar weakens against RMB	5%	14,060	13,565
If the Hong Kong dollar strengthens against RMB	(5%)	(14,060)	(13,565)
<b>2012</b>			
If the Hong Kong dollar weakens against RMB	5%	23,526	23,526
If the Hong Kong dollar strengthens against RMB	(5%)	(23,526)	(23,526)

### 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.

### 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.

# NOTES TO FINANCIAL STATEMENTS

30 June 2013

## 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### 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 2012 and 2013.

## 36. EVENTS AFTER THE REPORTING PERIOD

Save as disclosed elsewhere in these financial statements, the Group also had the following events after the reporting period:

- (a) On 17 June 2013, the Group had entered into a sale and purchase agreement with independent third parties to dispose of a wholly-owned subsidiary, Guangdong Qunhe, at a cash consideration of RMB10,000,000 (approximately HK\$12,561,000). The Directors expect the gain on disposal is approximately HK\$24,927,000.
- (b) On 31 May 2013, the Group entered into a share purchase agreement with Allied Benefit International Limited, Boom Easy Development Ltd, East Talent Investment Limited, Mr. Liao Minxin, Mr. Guo Liang and Mr. Xu Yingjian in relation to the Company's acquisition of all the issued share capital in Apex Rich, at a cash consideration of RMB400,000,000 (approximately HK\$502,166,000).

Details of the acquisition have been set out in the Company's announcement dated 31 May 2013. The acquisition of Apex Rich was completed on 29 July 2013.

Due to the timing of the transaction, the Group is still assessing the allocation of fair values of the assets acquired and liabilities assumed. The books and records of Apex Rich are under the assessment stage, and therefore the initial accounting for the business combination is under progress. Accordingly, certain disclosures in relation to the business combination as at the date of the acquisition, such as fair values of the assets acquired and liabilities assumed, goodwill recognised (if any) and acquisition-related costs, have not been presented.

## 37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 18 September 2013.

## SUMMARY FINANCIAL INFORMATION

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

### RESULTS

	Year ended 30 June				
	2013 HK\$'000	2012 HK\$'000	2011 HK\$'000	2010 HK\$'000	2009 HK\$'000
Revenue	<b>1,690,540</b>	1,349,409	957,322	631,039	374,593
Profit before tax	<b>276,434</b>	265,257	209,229	142,376	82,311
Income tax expense	<b>(77,622)</b>	(65,130)	(49,075)	(24,930)	(16,083)
Profit for the year	<b>198,812</b>	200,127	160,154	117,446	66,228
Attributable to:					
Equity holders of the Company	<b>207,095</b>	204,513	160,523	118,583	67,618
Non-controlling interests	<b>(8,283)</b>	(4,386)	(369)	(1,137)	(1,390)
	<b>198,812</b>	200,127	160,154	117,446	66,228

### ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 30 June				
	2013 HK\$'000	2012 HK\$'000	2011 HK\$'000	2010 HK\$'000	2009 HK\$'000
Total assets	<b>1,903,540</b>	1,623,355	1,366,975	447,259	266,916
Total liabilities	<b>(166,358)</b>	(130,731)	(108,943)	(108,563)	(97,539)
Non-controlling interests	<b>(4,170)</b>	(12,278)	(16,328)	(5,188)	(6,268)
	<b>1,773,012</b>	1,480,346	1,241,704	333,508	163,109



## SUMMARY FINANCIAL INFORMATION

### **ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS** (continued)

*Notes:*

- (i) The summary of the consolidated results of the Group for the year ended 30 June 2009 and of the assets, liabilities and non-controlling interests as at 30 June 2009 has 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 that year.
- (ii) The consolidated results of the Group for each of the two years ended 30 June 2012 and 2013 and the consolidated assets and liabilities and non-controlling interests of the Group as at 30 June 2012 and 2013 are those set out on pages 47 to 48 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.