

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this Scheme Document, the Scheme, or as to the action to be taken, you should consult a licensed securities dealer, or other registered institution in securities, a bank manager, solicitor, professional accountant, or other professional adviser.

If you have sold or transferred all your shares in Magic Holdings International Limited, you should at once hand this Scheme Document and the accompanying forms of proxy to the purchaser or the transferee or to the licensed securities dealer or other registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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

This Scheme Document and the accompanying forms of proxy are not an offer for sale of securities in the United States. Neither the United States Securities and Exchange Commission nor any United States state securities commission has reviewed, approved or disapproved this document, the Scheme or any of the proposals described in this Scheme Document. Any representation to the contrary is a criminal offence.

L'ORÉAL



MAGIC HOLDINGS INTERNATIONAL LIMITED

美即控股國際有限公司

(Incorporated in France as a société anonyme)

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1633)

**(1) CONDITIONAL PROPOSAL FOR ALL THE ISSUED SHARES OF
MAGIC HOLDINGS INTERNATIONAL LIMITED BY L'ORÉAL S.A.
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 86 OF THE COMPANIES LAW (2013 REVISION)
OF THE CAYMAN ISLANDS)**
and
**(2) RULE 25 TRANSACTION UNDER THE TAKEOVERS CODE
and**
**(3) DIRECTOR'S SERVICE AGREEMENT SUBJECT TO INDEPENDENT
SHAREHOLDERS' APPROVAL UNDER RULE 13.68 OF THE LISTING RULES
and**
**(4) PROPOSED WITHDRAWAL OF LISTING OF
MAGIC HOLDINGS INTERNATIONAL LIMITED**

Financial Adviser to the Offeror



BNP PARIBAS
CORPORATE & INVESTMENT BANKING

Independent Financial Adviser to the Independent Board Committees

Quam  **華富嘉洛**
CAPITAL 企業融資

Unless the context requires otherwise, capitalised terms used in this Scheme Document are as defined under the section headed "Definitions" in Part I of this Scheme Document.

A letter from the Board is set out in Part IV of this Scheme Document. A letter from the Independent Board Committee, containing its advice to the Shareholders in relation to the Proposal, the Scheme and the Service Agreement, including the Remuneration Package, is set out in Part V of this Scheme Document. A letter from Quam Capital Limited, being the Independent Financial Adviser to the Independent Board Committees, containing its advice to the Independent Board Committees in relation to the Proposal, the Scheme and the Service Agreement, including the Remuneration Package, is set out in Part VI of this Scheme Document. A letter from the Listing Rules Independent Board Committee, containing its advice to the Shareholders in relation to the Service Agreement is set out in Part VII of this Scheme Document. An Explanatory Memorandum regarding the Scheme is set out in Part VIII of this Scheme Document.

The actions to be taken by the Shareholders are set out in Part II of this Scheme Document.

Notices convening the Court Meeting and the EGM to be held on Monday, 24 March 2014 are set out in Appendix IV and Appendix V respectively to this Scheme Document. Whether or not you are able to attend the Court Meeting and/or the EGM or any adjournment thereof, you are strongly urged to complete and sign the enclosed **pink** form of proxy in respect of the Court Meeting and the enclosed **white** form of proxy in respect of the EGM, in accordance with the instructions printed thereon, and to lodge them at the office of the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not later than the respective times and dates as stated in Part II — Actions to be taken of this Scheme Document. If the **pink** form of proxy is not so lodged, it may also be handed to the Chairman of the Court Meeting at the Court Meeting, who shall have absolute discretion as to whether or not to accept it.

This Scheme Document is issued jointly by Magic Holdings International Limited and L'Oréal S.A..

The English language text of this Scheme Document shall prevail over the Chinese language text.

28 February 2014

TABLE OF CONTENTS

	<i>Page</i>
PART I — DEFINITIONS	1
PART II — ACTIONS TO BE TAKEN	13
PART III — EXPECTED TIMETABLE	16
PART IV — LETTER FROM THE BOARD	19
PART V — LETTER FROM THE INDEPENDENT BOARD COMMITTEE	37
PART VI — LETTER FROM THE INDEPENDENT FINANCIAL ADVISER	40
PART VII — LETTER FROM THE LISTING RULES INDEPENDENT BOARD COMMITTEE	77
PART VIII — EXPLANATORY MEMORANDUM	79
APPENDIX I — FINANCIAL INFORMATION	I-1
APPENDIX II — GENERAL INFORMATION ON THE COMPANY AND THE OFFEROR	II-1
APPENDIX III — SCHEME OF ARRANGEMENT	III-1
APPENDIX IV — NOTICE OF THE COURT MEETING	IV-1
APPENDIX V — NOTICE OF THE EGM	V-1

In this Scheme Document, the following expressions have the meanings set out below unless the context requires otherwise:

“acting in concert”	the meaning ascribed to it in the Takeovers Code
“Additional Bonus”	the one-off bonus arrangement between the Employer and Mr. She as described in the paragraph headed “17. Service Agreement and Remuneration Package — Performance Bonuses — Additional Bonus” in Part VIII — Explanatory Memorandum of this Scheme Document
“Additional Bonus Years”	the three calendar years ending 31 December 2014, 31 December 2015 and 31 December 2016 respectively
“Announcement”	the announcement dated 15 August 2013, issued jointly by the Offeror and the Company in relation to the Proposal and the Scheme
“Announcement Date”	15 August 2013, being the date of the Announcement
“Annual Bonus”	the annual bonus arrangement between the Employer and Mr. She as described in the paragraph headed “17. Service Agreement and Remuneration Package — Performance Bonuses — Annual Bonus” in Part VIII — Explanatory Memorandum of this Scheme Document
“Annual Bonus Years”	the three calendar years ending 31 December 2014, 31 December 2015 and 31 December 2016 respectively
“associates”	the meaning ascribed to it in the Takeovers Code
“Atlantis”	Atlantis Investment Management (Hong Kong) Limited, an investment adviser licensed by the SFC and authorised to undertake Type 4 (advising on securities) and Type 9 (asset management) regulated activities
“Atlantis Capital”	Atlantis Capital Holdings Limited, the 100 per cent. shareholder in Atlantis
“Atlantis Investors”	those investors in funds managed by Atlantis on their behalf that are subject to the irrevocable undertaking given by Atlantis on their behalf described in the section headed “16. Irrevocable Undertakings — Institutional Shareholders — Atlantis Investors Irrevocable Undertakings” in Part VIII — Explanatory Memorandum of this Scheme Document and “Atlantis Investor” means any one of them

“Awarded Shares”	the Shares granted under the Share Award Plan from time to time which have been awarded to designated grantees and which are to vest with such grantees once the conditions to vesting set out in the relevant awards have been satisfied
“Baili Acquisition”	the acquisition of Apex Rich Enterprises Limited and its subsidiaries by Magic Cosmetics Company Limited, an indirect wholly-owned subsidiary of the Company
“Baili EBIT”	the earnings before interest and tax of 廣州市百庫電子科技有限公司 (Guangzhou City Baiku Electronic Technology Co., Ltd.) and its subsidiaries
“Baring”	Baring Private Equity Asia V Holding (1) Limited
“Baring Permitted Amendments”	such amendments to the Scheme, or the Offer, as applicable, that: (i) solely relate to an increase in the cash price offered by the Offeror for each Share; or (ii) (A) do not reduce the amount or affect the form of consideration being offered by the Offeror for each Share, or extend the time by which any step in implementing the Scheme, or the Offer, as applicable is to be completed; and (B) in Baring’s reasonable opinion, would not adversely affect the successful implementation of the Scheme, or the Offer, as applicable
“Base Salary”	the gross base salary arrangement between the Employer and Mr. She as described in the paragraph headed “17. Service Agreement and Remuneration Package — Service Agreement — Base Salary and Regular Bonus” in Part VIII — Explanatory Memorandum of this Scheme Document
“Beneficial Owner”	any beneficial owner of an interest in Shares
“BNP Paribas”	BNP Paribas Securities (Asia) Limited, the financial adviser to the Offeror and is a licensed corporation under the SFO, licensed to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) regulated activities
“Board”	the board of directors of the Company
“Business Day”	a day on which the Stock Exchange is open for the transaction of business

“Cancellation Price”	the cancellation price of HK\$6.30 per Share payable in cash by the Offeror to the Scheme Shareholders pursuant to the Scheme
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Participant”	a CCASS Clearing Participant, a CCASS custodian Participant or an Investor Participant
“Companies Law”	the Companies Law (2013 Revision), as consolidated and revised, of the Cayman Islands
“Company” or “Magic”	Magic Holdings International Limited, an exempted company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
“Conditions”	the conditions (or any of them) to the implementation of the Proposal and the Scheme as set out in the section headed “3. Conditions of the Proposal and the Scheme” in Part VIII — Explanatory Memorandum of this Scheme Document
“Conditions Long Stop Date”	9 May 2014
“connected persons”	the meaning ascribed to such term in the Listing Rules
“Court Meeting”	a meeting of the Shareholders convened at the direction of the Grand Court at which the Scheme will be voted upon, which is to be held at Marina Room I, 2/F, The Excelsior Hotel, 281 Gloucester Road, Causeway Bay, Hong Kong at 2:00 p.m. on Monday, 24 March 2014, notice of which is set out in Appendix IV to this Scheme Document, or any adjournment thereof
“Customer Service Centre”	the Customer Service Centre operated by HKSCC to provide services and facilities to Investor Participants

“Effective Date”	the date on which the Scheme, if approved and sanctioned by the Grand Court, becomes effective in accordance with its terms and the Companies Law, being the date on which a copy of the Order of the Grand Court sanctioning the Scheme is delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to section 86(3) of the Companies Law, and which is expected to be Monday, 7 April 2014 (Cayman Islands time)
“EGM”	the extraordinary general meeting of the Company to be held at Marina Room I, 2/F, The Excelsior Hotel, 281 Gloucester Road, Causeway Bay, Hong Kong at 3:00 p.m. on Monday, 24 March 2014 (or as soon thereafter as the Court Meeting convened on the same day and place shall have been concluded or adjourned), notice of which is set out in Appendix V to this Scheme Document, or any adjournment thereof
“Employer”	Guangzhou Qunhe Cosmetics Co., Ltd. (廣州群禾化妝品有限公司), a company incorporated in the PRC and a wholly-owned subsidiary of the Company
“Escrow Bank”	(i) in relation to the Retention Bonus, HSBC Bank (China) Company Limited and (ii) in relation to the Retention Arrangement, The Hongkong and Shanghai Banking Corporation Limited
“EUR”	Euro(s), the single currency of the member states of the European Union that adopt or have adopted, and in each case continue to adopt, it as their lawful currency in accordance with legislation of the European Union relating to Economic and Monetary Union
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate thereof
“Explanatory Memorandum”	the explanatory memorandum set out in Part VIII of this Scheme Document and issued in compliance with the Rules of the Grand Court of the Cayman Islands 1995 (revised)
“Founders”	Mr. Tang Siu Kun Stephen, Mr. She and Mr. Luo Yao Wen, each an executive director of the Company
“France”	the French Republic
“Grand Court”	the Grand Court of the Cayman Islands
“Greenwoods”	Greenwoods Asset Management Limited

“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Implementation Agreement”	the implementation agreement dated 15 August 2013 entered into among the Offeror, Mr. She and the Company (as amended and supplemented by an amendment agreement dated 26 February 2014 and entered into between the Company, the Offeror and Mr. She) as set out in the section headed “Implementation Agreement” in Part IV — Letter from the Board
“Independent Board Committee”	the independent board committee of the Company comprising all the non-executive directors of the Company established by the Board to make a recommendation to the Independent Shareholders in respect of the Proposal, the Scheme and the Service Agreement, including the Remuneration Package
“Independent Board Committees”	collectively, the Independent Board Committee and the Listing Rules Independent Board Committee
“Independent Financial Adviser”	the independent financial adviser to the Independent Board Committees appointed pursuant to Rule 2.1 of the Takeovers Code and the Listing Rules in relation to the Proposal, the Scheme and the Service Agreement, including the Remuneration Package, being Quam Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO
“Independent Shareholders”	Shareholders other than the Offeror, Mr. She, his associates (including the SPVCo, his spouse and the Share Award Plan Trustee) and any other party acting in concert with any of them
“Institutional Shareholders”	(i) Baring; (ii) Greenwoods; and (iii) Atlantis, as principal and on behalf of the Atlantis Investors

“Intellectual Property”	trade marks, service marks, rights in trade names, business names, logos or get-up, patents, petty patents, utility models, supplementary protection certificates, rights in inventions, registered and unregistered design rights, copyrights, database rights, rights in domain names and URLs, rights to sue for passing off and in unfair competition, rights in opposition proceedings and all other similar rights in any part of the world (including in Know-how) including, where such rights are obtained or enhanced by registration, any registration of such rights and applications and rights to apply for such registrations
“Investor Participant”	a person admitted to participate in CCASS as an investor participant
“Irrevocable Undertakings”	the irrevocable undertakings given by each of the Founders, Baring, Greenwoods and Atlantis, as principal and/or on behalf of the Atlantis Investors, as described in the section headed “16. Irrevocable Undertakings” in Part VIII — Explanatory Memorandum of this Scheme Document
“Know-how”	industrial and commercial information and techniques in any form not in the public domain including drawings, formulae, test results, reports, project reports and testing procedures, instruction and training manuals, tables of operating conditions, market forecasts, lists and particulars of customers and suppliers
“Last Trading Day”	9 August 2013, being the trading day prior to the date of suspension of trading of the Shares on the Stock Exchange pending the issuance of the Announcement
“Latest Practicable Date”	25 February 2014, being the latest practicable date for ascertaining certain information contained in this Scheme Document
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Listing Rules Independent Board Committee”	the independent board committee of the Company comprising all the independent non-executive directors of the Company established by the Board pursuant to Rule 13.68 of the Listing Rules to make a recommendation to the Independent Shareholders in respect of the Service Agreement

“L’Oréal China”	L’Oréal (China) Co., Ltd., a company incorporated under the laws of the PRC and a wholly-owned subsidiary of the Offeror
“Magic EBIT”	consolidated earnings before interest and tax of the Original Magic Group, excluding any expenses incurred by the Original Magic Group in connection with the employment of any expatriate officers or employees employed at the direction of the Offeror
“Magic Group”	the Company and its subsidiaries
“Material Adverse Effect”	<p>material adverse effect involving an amount over (i) HK\$200 million in respect of the net asset value, (ii) HK\$300 million in respect of the consolidated net sales on an annualised basis, or (iii) HK\$300 million in respect of the cash position, of the Magic Group as set out in the latest published accounts of the Magic Group, or a material adverse change in the general affairs, management, trading position, business prospects, conditions (financial, operational, legal or otherwise), earnings, solvency, past, current or future consolidated financial position, shareholders’ equity or results of operations of the Company or any member of the Magic Group, whether or not arising in the ordinary course of business, involving an amount over (i) HK\$200 million in respect of the net asset value, (ii) HK\$300 million in respect of the consolidated net sales on an annualised basis, or (iii) HK\$300 million in respect of the cash position, of the Magic Group as set out in the latest published accounts of the Magic Group, provided, however, that none of the following, either alone or in combination, shall be considered in determining whether there has been such a change, effect, fact, event or circumstance:</p> <ul style="list-style-type: none">(A) events, circumstances, changes or effects that generally affect the industries in which the Company operates (including legal and regulatory changes);(B) general economic or political conditions or events, circumstances, changes or effects affecting the securities markets generally;(C) any circumstance, change or effect that results from any action taken pursuant to or in accordance with the Implementation Agreement or at the request of the Offeror;

	(D) changes caused by a material worsening of current conditions caused by acts of terrorism or war (whether or not declared) occurring after the date of the Implementation Agreement; and
	(E) any reduction in the cash position of the Magic Group as set out in the interim report 2012/2013 of the Company as a result of the payment of the consideration for the Baili Acquisition or any part of it on the date of such payments
“Meeting Record Date”	4:30 p.m. (Hong Kong time) on Friday, 21 March 2014, or such other time and date as shall have been announced to the Shareholders, being the record date for the purpose of determining the entitlement of Shareholders to attend and vote at the Court Meeting and the EGM
“Minimum Ratio”	Magic EBIT/Turnover ratio of at least 10 per cent.
“MOFCOM”	the Ministry of Commerce of the People’s Republic of China
“MOFCOM Pre-Condition”	the Pre-Condition set out in paragraph (a) in the section headed “Pre-Conditions of the Proposal and the Scheme” in the Announcement
“Mr. She”	Mr. She Yu Yuan, an executive director of the Company
“Nominee Pre-Condition”	the Pre-Condition set out in paragraph (c) in the section headed “Pre-Conditions of the Proposal and the Scheme” in the Announcement
“Offer”	a general offer governed by the Takeovers Code if the acquisition of the Company by the Offeror is implemented by way of a general offer
“Offeror”	L’Oréal S.A., a “société anonyme” existing and organized under the laws of France, having its registered office at 14 rue Royale 75008 Paris, registered under number 632 012 100 RCS Paris, the shares of which are listed on the Paris Stock Exchange
“Offeror Concert Parties”	the parties acting in concert (or presumed to be acting in concert) with the Offeror as determined in accordance with the Takeovers Code
“Offeror Group”	the Offeror and its subsidiaries

“Original Magic Group”	the Magic Group, excluding Apex Rich Enterprises Limited and its subsidiaries
“Other CCASS Participant”	a broker, custodian, nominee or other relevant person who is, or has deposited Shares with, a CCASS participant
“Other Distributions”	any dividends and other distributions declared and made in respect of any Awarded Shares and received and held by the Share Award Plan Trustee prior to such Awarded Shares becoming vested in the grantees
“Paris Stock Exchange”	Euronext Paris S.A.
“PRC or China”	the People’s Republic of China, but for the purpose of this Scheme Document, excluding Hong Kong, Macau Special Administrative Region and Taiwan
“Pre-Announcement Date”	2 August 2013, being the day on which the Company issued an announcement regarding a possible offer for all the Shares of the Company
“Pre-Conditions”	the pre-conditions to the making of the Proposal and implementation of the Scheme (including the MOFCOM Pre-Condition and the Nominee Pre-Condition), which were satisfied on 9 January 2014
“Proposal”	the proposal for the acquisition of the Company by the Offeror by way of the Scheme and the restoration of the share capital of the Company to the amount immediately before the cancellation of the Shares, on the terms and subject to the conditions set out in this Scheme Document
“Record Date”	Monday, 7 April 2014, or such other time and date as shall have been announced to the Shareholders, being the record date for the purpose of determining the entitlements of the Shareholders to the Cancellation Price upon the Scheme becoming effective
“Registered Owner”	any legal owner of Shares (including without limitation a nominee, trustee, depository or any other authorised custodian or third party) entered in the register of members of the Company
“Regular Bonus”	the regular bonus arrangement between the Employer and Mr. She as described in the paragraph headed “17. Service Agreement and Remuneration Package — Service Agreement — Base Salary and Regular Bonus” in Part VIII — Explanatory Memorandum of this Scheme Document

“Relevant Authorities”	appropriate governments and/or governmental bodies, regulatory bodies, courts or institutions
“Remuneration Package”	the Base Salary, the Regular Bonus, the Retention Bonus, the Annual Bonus and the Additional Bonus, the details of each of which are set out in the paragraph headed “17. Service Agreement and Remuneration Package” in Part VIII — Explanatory Memorandum of this Scheme Document
“Resolutions”	(i) the resolutions to approve the Scheme to be considered at the Court Meeting; and (ii) the special resolution to approve and give effect to the reduction of the share capital of the Company by cancelling and extinguishing all the Shares as a result of the Scheme; and (iii) the ordinary resolutions (a) immediately to restore the issued share capital of the Company to the amount in effect immediately prior to the cancellation of the Shares and to pay up in full at par such number of new Shares as is equal to the number of Shares cancelled as a result of the Scheme, for issuance to the Offeror, credited as fully paid; and (b) to approve the terms of the Service Agreement, including the Remuneration Package, to be considered at the EGM
“Retention Amount”	20 per cent. of the consideration payable to Mr. She or SPVCo, as applicable, for the Shares held by Mr. She or SPVCo, as applicable, pursuant to the Scheme
“Retention Arrangement”	the retention arrangement between the Offeror and Mr. She regarding the Retention Amount as described in the paragraph headed “17. Service Agreement and Remuneration Package — Retention Arrangement” in Part VIII — Explanatory Memorandum of this Scheme Document
“Retention Arrangement Escrow Agreement”	the escrow agreement dated 20 February 2014 entered into among the Offeror, Mr. She and the Escrow Bank in relation to the Retention Arrangement
“Retention Bonus”	the one-off retention bonus arrangement between the Employer and Mr. She as described in the paragraph headed “17. Service Agreement and Remuneration Package — Service Agreement — Retention Bonus” in Part VIII — Explanatory Memorandum of this Scheme Document
“Retention Bonus Escrow Agreement”	the escrow agreement dated 20 February 2014 entered into among the Employer, Mr. She and the Escrow Bank in relation to the Retention Bonus

“Retention Term”	a three-year period from the date of deposit of the Retention Amount into the relevant escrow account at the Escrow Bank
“RMB”	Renminbi, the lawful currency of the PRC
“Scheme”	the scheme of arrangement under Section 86 of the Companies Law set out in Appendix III — Scheme of Arrangement to this Scheme Document (subject to any modifications or additions or conditions approved or imposed by the Grand Court and agreed to by the Offeror), involving the cancellation of all the Shares
“Scheme Document”	this composite document, including each of the letters, statements and notices in and appendices to it, as may be amended or supplemented from time to time
“Scheme Shareholder(s)”	holder(s) of Shares including Awarded Shares and other Shares (including the Other Distributions) held by the Share Award Plan Trustee as at the Record Date
“Service Agreement”	the updated and amended executive service agreement dated 4 February 2014 between the Employer and Mr. She (as amended and supplemented by an amendment agreement dated 26 February 2014 and entered into between the Employer and Mr. She), setting out the terms of employment of Mr. She by the Employer upon the Scheme becoming effective, as described in the section headed “17. Service Agreement and Remuneration Package — Service Agreement” in Part VIII — Explanatory Memorandum of this Scheme Document
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.10 each in the issued share capital of the Company
“Share Award Plan”	the share award plan adopted by Magic Holdings Group Limited, a wholly-owned subsidiary of the Company, on 30 October 2009

“Share Award Plan Trustee”	the remuneration committee of Magic Holdings Group Limited acting by its members, namely Mr. Tang Siu Kun Stephen (an executive director of the Company) and Mr. She, who hold the Shares subject to the terms and conditions of the deed of settlement constituting the Share Award Plan, or such other trustee as shall be appointed from time to time pursuant to the terms of such deed
“Shareholder(s)”	registered holder(s) of Shares
“Share Option Scheme”	the share option scheme adopted by the Company on 6 September 2010
“SPVCo”	Uprise Smart Limited, a company incorporated in the British Virgin Islands which is wholly-owned by Mr. She
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	The Code on Takeovers and Mergers of Hong Kong
“Tax”	all forms of taxation whether direct or indirect and whether levied by reference to income, profits, gains, net wealth, asset values, turnover, added value or other reference and statutory, governmental, state, provincial, local governmental or municipal impositions, duties, contributions, rates and levies (including social security contributions and any other payroll taxes), whenever and wherever imposed (whether imposed by way of a withholding or deduction for or on account of tax or otherwise) and in respect of any person and all penalties, charges, costs and interest relating thereto
“Tax Authority”	any taxing or other authority competent to impose any liability in respect of Tax or responsible for the administration and/or collection of Tax or enforcement of any law in relation to Tax
“trading day”	a day on which the Stock Exchange is open for the business of dealings in securities
“Turnover”	the consolidated net sales of the Original Magic Group

All references in this Scheme Document to times and dates are references to Hong Kong times and dates, except as otherwise specified and other than references to (i) the expected date of the Grand Court hearing of the petition to sanction the Scheme and to confirm the capital reduction and (ii) the Effective Date, which are the relevant dates in the Cayman Islands. For reference only, Cayman Islands time is 13 hours behind Hong Kong time as at the date of this Scheme Document.

ACTIONS TO BE TAKEN BY SHAREHOLDERS

A **pink** form of proxy for use at the Court Meeting and a **white** form of proxy for use at the EGM are enclosed with copies of this Scheme Document sent to Registered Owners of the Shares. Subsequent purchasers of Shares will need to obtain the proxy forms from the transferor.

Whether or not you are able to attend the Court Meeting and/or the EGM, if you are a Shareholder, you are strongly urged to complete and sign the enclosed **pink** form of proxy in respect of the Court Meeting, and **white** form of proxy in respect of the EGM, in accordance with the instructions printed thereon, and to lodge them at the office of the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong. **In order to be valid, the pink form of proxy for use at the Court Meeting should be so lodged not later than 2:00 p.m. (Hong Kong time) on Saturday, 22 March 2014 or be handed to the Chairman of the Court Meeting at the Court Meeting who shall have absolute discretion as to whether or not to accept it, and the white form of proxy for use at the EGM should be so lodged not later than 3:00 p.m. (Hong Kong time) on Saturday, 22 March 2014.** The completion and return of a form of proxy for the Court Meeting and/or the EGM will not preclude you from attending and voting in person at the relevant meeting. In such event, the returned form of proxy will be deemed to have been revoked.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting and the EGM, you will still be bound by the outcome of the Court Meeting and the EGM. You are therefore strongly urged to attend and vote at the Court Meeting and the EGM in person or by proxy.

For the purpose of determining the entitlements of Shareholders to attend and vote at the Court Meeting and the EGM, the register of members of the Company will be closed from Wednesday, 19 March 2014 to Monday, 24 March 2014 (both days inclusive) and during such period, no transfer of Shares will be effected. In order to qualify to vote at the Court Meeting and the EGM, all transfers accompanied by the relevant share certificates must be lodged with Tricor Investor Services Limited, the Hong Kong branch share registrar of the Company at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. (Hong Kong time) on Tuesday, 18 March 2014.

An announcement will be made by the Company in relation to the results of the Court Meeting and the EGM. If all the resolutions are passed at those meetings, further announcement(s) will be made of the results of the hearing of the petition to sanction the Scheme by the Grand Court and, if the Scheme is sanctioned, the Record Date, the Effective Date and the date of withdrawal of the listing of the Shares on the Stock Exchange.

ACTIONS TO BE TAKEN BY HOLDERS THROUGH TRUST OR CCASS

The Company will not recognise any person as holding any Shares upon any trust. If you are a Beneficial Owner whose Shares are held upon trust by, and registered in the name of, a Registered Owner (other than HKSCC Nominees Limited), you should contact the Registered Owner and provide him, her or it with instructions or make arrangements with the Registered Owner in relation to the manner in which your Shares should be voted at the Court Meeting and/or the EGM. Such instructions and/or arrangements should be given or made in advance of the aforementioned latest time for the lodgment of forms of proxy in respect of the Court Meeting and the EGM in order to provide the Registered Owner with sufficient time to accurately complete his, her or its proxy and to submit it by the deadline stated above. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner at a particular date or time in advance of the aforementioned latest time for the lodgment of forms of proxy in respect of the Court Meeting and the EGM, any such Beneficial Owner should comply with the requirements of the Registered Owner.

If you are a Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited, you must, unless you are an Investor Participant, contact your broker, custodian, nominee, or other relevant person who is, or has, in turn, deposited such Shares into CCASS regarding voting instructions to be given to such persons if you wish to vote at the Court Meeting and/or at the EGM. You should contact your broker, custodian, nominee or other relevant person in advance of the latest time for the lodgment of forms of proxy in respect of the Court Meeting and the EGM, in order to provide such broker, custodian, nominee or other relevant person with sufficient time to provide HKSCC with instructions or make arrangements with HKSCC in relation to the manner in which the Shares of the Beneficial Owner should be voted at the Court Meeting and/or the EGM.

If you are a CCASS Participant, you should refer to the message from HKSCC to participants which sets out the actions which participants are required to take in relation to the Court Meeting and which you will receive by the following means:

- (1) for CCASS Participants other than Investor Participants, via CCASS Terminals (as defined in the CCASS Operational Procedures) and Participant Gateways (as defined in the CCASS Operational Procedures) through the “Enquire Announcement Information” function; and
- (2) for Investor Participants, via the CCASS Phone System (as defined in the CCASS Operational Procedures) and the CCASS Internet System (as defined in the CCASS Operational Procedures).

CCASS Participants other than Investor Participants who wish to participate in voting at the Court Meeting and EGM must input their instructions in a CCASS Terminal or a Participant Gateway.

Investor Participants who wish to participate in voting at the Court Meeting and EGM must give their instructions via the CCASS Phone System or the CCASS Internet System, or at the Customer Service Centre. HKSCC will vote for and against the Scheme in accordance with instructions received from CCASS Participants (as defined under the General Rules of CCASS). The number of votes cast in favour of the Scheme and the number of CCASS Participants on whose instructions they are cast and the number of votes cast against the Scheme and the number of CCASS Participants on whose instructions they are cast will be disclosed to the Grand Court and may be taken into account in deciding whether or not the Grand Court should exercise its discretion to sanction the Scheme.

EXERCISE YOUR RIGHT TO VOTE

IF YOU ARE A SHAREHOLDER OR A BENEFICIAL OWNER, THE COMPANY AND THE OFFEROR STRONGLY ENCOURAGE YOU TO EXERCISE YOUR RIGHT TO VOTE OR GIVE INSTRUCTIONS TO THE RELEVANT REGISTERED OWNER TO VOTE IN PERSON OR BY PROXY AT THE COURT MEETING AND AT THE EGM. IF YOU KEEP ANY SHARES IN A SHARE LENDING PROGRAMME, WE URGE YOU TO RECALL ANY OUTSTANDING SHARES ON LOAN TO AVOID MARKET PARTICIPANTS USING BORROWED STOCK TO VOTE.

IF YOU ARE A BENEFICIAL OWNER WHOSE SHARES ARE DEPOSITED IN CCASS, WE ENCOURAGE YOU TO PROVIDE HKSCC WITH INSTRUCTIONS OR MAKE ARRANGEMENTS WITH HKSCC IN RELATION TO THE MANNER IN WHICH THOSE SHARES SHOULD BE VOTED AT THE COURT MEETING AND/OR THE EGM WITHOUT DELAY (AS DETAILED IN THE SECTION “ACTIONS TO BE TAKEN — ACTION TO BE TAKEN BY HOLDERS THROUGH TRUST OR CCASS” ABOVE).

IF YOU ARE A REGISTERED OWNER HOLDING SHARES ON BEHALF OF BENEFICIAL OWNERS, WE WOULD BE GRATEFUL IF YOU WOULD INFORM THE RELEVANT BENEFICIAL OWNERS ABOUT THE IMPORTANCE OF EXERCISING THEIR VOTE.

IF YOU ARE IN ANY DOUBT AS TO THE ACTION TO BE TAKEN, YOU ARE ENCOURAGED TO CONSULT YOUR LICENSED SECURITIES DEALER OR REGISTERED INSTITUTION IN SECURITIES, BANK MANAGER, SOLICITOR, PROFESSIONAL ACCOUNTANT OR OTHER PROFESSIONAL ADVISER.

Hong Kong Time

Date of despatch of this Scheme Document	Friday, 28 February 2014
Latest time for lodging transfers of Shares in order to qualify for attending and voting at the Court Meeting and the EGM	4:30 p.m. on Tuesday, 18 March 2014
Register of members of the Company closed for determination of entitlements of Shareholders to attend and vote at the Court Meeting and the EGM (<i>Note 1</i>)	from Wednesday, 19 March 2014 to Monday, 24 March 2014 (both days inclusive)
Meeting Record Date	Friday, 21 March 2014
Latest time for lodging forms of proxy in respect of (<i>Note 2</i>) — Court Meeting	2:00 p.m. on Saturday, 22 March 2014 (or be handed directly to the Chairman at the Court Meeting)
— EGM	3:00 p.m. on Saturday, 22 March 2014
Suspension of dealings in the Shares on the Stock Exchange.	9:00 a.m. on Monday, 24 March 2014
Court Meeting (<i>Note 3</i>)	2:00 p.m. on Monday, 24 March 2014
EGM (<i>Note 3</i>)	3:00 p.m. on Monday, 24 March 2014 (or immediately after the conclusion or adjournment of the Court Meeting)
Announcement of the results of the Court Meeting and the EGM published on the website of the Stock Exchange and the website of the Company	not later than 7:00 p.m. on Monday, 24 March 2014
Resumption of dealings in the Shares on the Stock Exchange	9:00 a.m. on Tuesday, 25 March 2014

Hong Kong Time

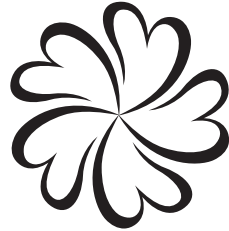
Expected last day for dealing in the Shares on the Stock Exchange	4:00 p.m. on Tuesday, 1 April 2014
Latest time for lodging transfers of Shares in order to qualify for entitlements under the Scheme (<i>Note 7</i>)	4:30 p.m. on Friday, 4 April 2014
Court hearing of the petition to sanction the Scheme and to confirm the capital reduction	Friday, 4 April 2014 (Cayman Islands Time)
Announcement of the result of the court hearing to sanction the Scheme and to confirm the capital reduction	Sunday, 6 April 2014
Register of members of the Company closed for determining entitlements to qualify under the Scheme (<i>Note 4</i>)	Monday, 7 April 2014
Record Date	Monday, 7 April 2014
Effective Date (<i>Note 5</i>)	Monday, 7 April 2014 (Cayman Islands Time)
Announcement of the Effective Date and the withdrawal of the listing of the Shares on the Stock Exchange	Tuesday, 8 April 2014
Expected withdrawal of the listing of the Shares on the Stock Exchange (<i>Note 6</i>)	4:00 p.m. on Wednesday, 9 April 2014
Cheques for cash payment under the Proposal and the Scheme to be despatched	on or before Wednesday, 16 April 2014

Shareholders should note that the above timetable is subject to change. Further announcement(s) will be made in the event that there is any change.

Notes:

- (1) The register of members of the Company will be closed during such period for the purpose of determining the entitlements of the Shareholders to attend and vote at the Court Meeting and the EGM. This book close period is not for determining entitlements under the Scheme.

- (2) Forms of proxy should be lodged with the office of the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event no later than the times and dates stated above. If the **pink** form of proxy is not so lodged, it may also be handed to the Chairman of the Court Meeting at the Court Meeting who shall have absolute discretion as to whether or not to accept it. In order to be valid, the **pink** form of proxy for the Court Meeting and the **white** form of proxy for the EGM must be lodged no later than the latest times and dates stated above. Completion and return of a form of proxy for the Court Meeting or the EGM will not preclude a Shareholder from attending the relevant meeting and voting in person. In such event, the returned form of proxy will be deemed to have been revoked.
- (3) The Court Meeting and the EGM will be held at Marina Room I, 2/F, The Excelsior Hotel, 281 Gloucester Road, Causeway Bay, Hong Kong at the times and dates specified above. Please see the notice of the Court Meeting set out in Appendix IV to this Scheme Document and the notice of the EGM set out in Appendix V to this Scheme Document for details.
- (4) The register of members of the Company will be closed for the purpose of determining Shareholders who are qualified for entitlements under the Scheme.
- (5) The Scheme shall become effective upon all the Conditions set out in the paragraph headed "3. Conditions of the Proposal and the Scheme" in Part VIII — Explanatory Memorandum of this Scheme Document having been fulfilled or (to the extent permitted) waived. The Effective Date is tentative subject to the Grand Court granting the sanction of the Scheme and the applicable laws of the Cayman Islands.
- (6) If the Proposal becomes unconditional and the Scheme becomes effective, it is expected that the listing of the Shares on the Stock Exchange will be withdrawn from 4:00 p.m. on Wednesday, 9 April 2014.
- (7) Address of Tricor Investor Services Limited will be changed to Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong with effect from 31 March 2014.



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)

Executive Directors:

TANG Siu Kun Stephen
SHE Yu Yuan
LUO Yao Wen
CHENG Wing Hong

Non-executive Directors:

SUN Yan
CHEN Dar Cin

Independent non-executive Directors:

YAN Kam Tong
DONG Yin Mao
YANG Rude

Registered office:

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

*Principal place of business
in Hong Kong:*

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

28 February 2014

To: The Shareholders

Dear Sir or Madam,

- (1) CONDITIONAL PROPOSAL FOR ALL THE ISSUED SHARES OF
MAGIC HOLDINGS INTERNATIONAL LIMITED BY L'ORÉAL S.A.
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 86 OF THE COMPANIES LAW (2013 REVISION)
OF THE CAYMAN ISLANDS)**
- and**
- (2) RULE 25 TRANSACTION UNDER THE TAKEOVERS CODE
and**
- (3) DIRECTOR'S SERVICE AGREEMENT SUBJECT TO INDEPENDENT
SHAREHOLDERS' APPROVAL UNDER RULE 13.68 OF THE LISTING RULES
and**
- (4) PROPOSED WITHDRAWAL OF LISTING OF
MAGIC HOLDINGS INTERNATIONAL LIMITED**

INTRODUCTION

On 15 August 2013, the Offeror and the Company jointly announced that on 12 August 2013, the Offeror had requested the Board to put forward a Proposal to the Shareholders for a proposed acquisition of all of the issued shares of the Company by way of the Scheme, subject to satisfaction, or waiver, as applicable, of the Pre-Conditions and the Conditions. The Offeror and the Company jointly announced on 13 January 2014 that the Pre-Conditions were satisfied on 9 January 2014.

The purpose of this Scheme Document is to provide you with further information regarding the Proposal, the Scheme, the Service Agreement, including the Remuneration Package, and the expected timetable and to give you notices of the Court Meeting and the EGM (together with proxy forms in relation thereto). Your attention is also drawn to the letter from the Independent Board Committee set out in Part V of this Scheme Document, the letter from Quam Capital Limited, being the Independent Financial Adviser, set out in Part VI of this Scheme Document, the letter from the Listing Rules Independent Board Committee set out in Part VII of this Scheme Document, the Explanatory Memorandum set out in Part VIII of this Scheme Document and the terms of the Scheme set out in Appendix III to this Scheme Document.

TERMS OF THE PROPOSAL

Subject to the fulfilment or waiver (as applicable) of the Conditions as described in the Explanatory Memorandum, the Proposal will be implemented by way of the Scheme. Subject to the Scheme becoming effective, each Shareholder whose name appears in the register of members of the Company as at the Record Date will be entitled to receive HK\$6.30 in cash for each Share. The total consideration of approximately HK\$6,538.72 million payable for the Shares will be payable by the Offeror.

Upon the Scheme becoming effective, payment of the Cancellation Price for the Shares will be made to the Shareholders whose names appear on the register of members of the Company as at the Record Date as soon as possible within seven Business Days following the Scheme becoming effective. Assuming that the Scheme becomes effective on Monday, 7 April 2014, cheques for cash entitlements under the Scheme are expected to be despatched to the Scheme Shareholders by ordinary mail at their own risk on or before Wednesday, 16 April 2014. Upon the Scheme becoming effective, the Offeror will hold the entire issued share capital of the Company and it is expected that the listing of the Shares on the Stock Exchange will be withdrawn.

The Scheme

Under the Scheme, the issued share capital of the Company will, on the Effective Date, be reduced by cancelling and extinguishing the Shares, and immediately following such reduction, the issued share capital of the Company will be restored to its former amount by the issuance at par to the Offeror credited as fully paid of the same number of Shares as is equal to the Shares cancelled. The reserve created in the Company's books of account as a result of the capital reduction will be applied to the paying up in full at par the new Shares so issued to the Offeror.

Comparison of value and financial effects*Cancellation Price*

The Cancellation Price of HK\$6.30 per Share represents a premium of approximately:

- 37.0% over the closing price of HK\$4.60 per Share as quoted on the Stock Exchange on 26 July 2013, being the last Business Day on which the Shares were traded on the Stock Exchange prior to the commencement of the offer period on 2 August 2013 (i.e. the date of which the Company first announced the possibility of an offer for all the Shares of the Company);
- 24.8% over the closing price of HK\$5.05 per Share as quoted on the Stock Exchange on the Last Trading Day;
- 26.8% over the average closing price of approximately HK\$4.97 per Share based on the daily closing prices as quoted on the Stock Exchange for the 5 trading days up to and including the Last Trading Day;
- 25.5% over the average closing price of approximately HK\$5.02 per Share based on the daily closing prices as quoted on the Stock Exchange for the 10 trading days up to and including the Last Trading Day;
- 25.7% over the average closing price of approximately HK\$5.01 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;
- 29.9% over the average closing price of approximately HK\$4.85 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day;
- 66.7% over the average closing price of approximately HK\$3.78 per Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Day; and
- 1.3% over the closing price of HK\$6.22 per Share as at the Latest Practicable Date.

Dividends

The Company's ability to pay dividends is limited by Cayman Islands law, which allows a Cayman Islands company to declare and pay dividends only out of either profit and/or share premium account and/or the proceeds of a new issue of shares, subject, in each case, to such company being able to continue to pay its debts as they fall due in the ordinary course of business.

The share premium account is described in Section 34 of the Companies Law (2013 Revision) of the Cayman Islands. When a company issues shares at a premium to par value, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares is deemed to be transferred to the share premium account. The share premium account is a notional account with meaning only in the context of share distributions by Cayman Islands companies. Amounts standing to the credit of the share premium account are notionally reduced to the extent that a company funds any dividend, redemption or repurchase amount from such account.

Shareholders whose names appear on the register of members of the Company as at the record date for entitlement to dividend, if any, declared by the Company on or before the Effective Date will be entitled to receive such dividend (if any). The Company does not expect to declare any dividend on or before the Effective Date.

Awarded Shares

As the terms of the Share Award Plan do not give grantees of Awarded Shares any legal or beneficial rights to Awarded Shares prior to their vesting, the Offeror will not be making an offer to the grantees of Awarded Shares under the Share Award Plan. The Company has procured that any consideration payable by the Offeror to the Share Award Plan Trustee in respect of the Awarded Shares and the Other Distributions as a Scheme Shareholder pursuant to the Scheme shall be held on trust for the grantees of the Awarded Share(s). Such amounts shall be paid by the Share Award Plan Trustee to the grantees of the Awarded Share(s) by reference to the number of Awarded Share(s) (including the Other Distributions) attributable to such grantees on the Record Date as soon as possible within seven Business Days following the Scheme becoming effective.

Your attention is drawn to the section headed “11. Awarded Shares “under Part VIII — Explanatory Memorandum of this Scheme Document.

SERVICE AGREEMENT AND REMUNERATION PACKAGE

Upon the Scheme becoming effective, Mr. She, an executive director, will serve as chief executive officer of the Magic Group and director of Magic Holdings Group Limited, a wholly-owned subsidiary of the Company, in order to continue to contribute to the growth and development of the Company and work with the Offeror to further build the Magic brand. Accordingly, the Employer and Mr. She have entered into the Service Agreement setting out the terms of employment of Mr. She, which will be subject to the approval of the Board and will take effect on the Effective Date. L’Oréal China has executed a guarantee in favour of Mr. She to guarantee the due performance by the Employer of its obligations under the Service Agreement.

Service Agreement*Base Salary and Regular Bonus*

Under the Service Agreement, Mr. She will be entitled to a gross base salary of RMB3,000,000 per annum, payable monthly, and a Regular Bonus of RMB900,000 per annum, payable annually for three years from the Effective Date. The Regular Bonus will be subject to Mr. She meeting the performance targets set out in the annual budget of the Magic Group, which is subject to the Company's approval, for consolidated net sales, earnings before interest and tax and market share of the Magic Group and in accordance with the policies in place from time to time of L'Oréal China which are of general application to employees of a similar level of seniority as Mr. She.

Retention Bonus

As appreciation of Mr. She's commitment to serving as the chief executive officer of the Magic Group, Mr. She will be entitled to a one-off Retention Bonus equivalent to a gross amount of HK\$9,000,000. The Retention Bonus is payable by the Employer in RMB in three equal instalments on the first, second and third anniversary of the Effective Date, respectively. The Employer shall deposit each instalment into an escrow account at the Escrow Bank, as escrow agent, notwithstanding any termination of the Service Agreement, save for any such termination by Mr. She as a result of his resignation as the chief executive officer of the Magic Group without the Employer's consent before the third anniversary of the Effective Date. The Retention Bonus shall bear interest as set out in the Retention Bonus Escrow Agreement.

The Retention Bonus, together with interest earned on it, shall be released automatically from escrow to Mr. She on the third anniversary of the Effective Date, unless:

- (i) Mr. She ceases to be employed by the Employer before the third anniversary of the Effective Date due to an inability by him to discharge his duties as chief executive officer of the Magic Group due to (a) death or, (b) in the reasonable opinion of an independent medical practitioner reasonably acceptable to him and the Employer, a long-term illness or permanent disability, in which case, upon the occurrence of such event:
 - (1) the Retention Bonus, together with interest earned on it; and
 - (2) a pro-rata amount of the instalment for the year which the relevant event occurred, calculated by dividing an amount equal to an instalment by 365 days and multiplying such number by the aggregate number of days from the day after the preceding deposit date of an instalment, to the date of release of the relevant amounts from escrow,

will each be released and paid promptly to Mr. She (or his legal representative);
or

- (ii) Mr. She resigns as chief executive officer of the Magic Group before the third anniversary of the Effective Date without the Employer's written consent, in which case the Retention Bonus, together with interest earned on it, will be released immediately from escrow to the Employer and Mr. She shall no longer be entitled to any further instalments which have not been deposited by the Employer into escrow.

The Employer, Mr. She and the Escrow Bank have entered into the Retention Bonus Escrow Agreement on 20 February 2014 to implement the Retention Bonus arrangement described above.

Performance Bonuses

As incentive for Mr. She to continue to contribute to the growth and development of the Magic Group upon implementation of the Scheme, an Annual Bonus based on the annual financial performance of the Magic Group and a one-off Additional Bonus based on the financial performance of the Magic Group over a three-year period will form part of his remuneration. Further details on the Annual Bonus and the Additional Bonus are set out below.

Annual Bonus

The Annual Bonus will be a cash amount payable by the Employer equal to two and a half per cent. of the annual increase in the Turnover for each Annual Bonus Year, provided that:

- (i) Mr. She has been the chief executive officer of the Magic Group throughout the relevant Annual Bonus Year and remains so on 31 December of the relevant Annual Bonus Year;
- (ii) the Original Magic Group attains the Minimum Ratio for the relevant Annual Bonus Year; and
- (iii) the Baili EBIT is positive for the relevant Annual Bonus Year. Otherwise, the Annual Bonus for that Annual Bonus Year shall be reduced by 20 per cent., save that any amount equal to such reduction shall be payable to Mr. She if the aggregate three-year Baili EBIT accumulated over the three Annual Bonus Years is positive.

In the event that the employment of Mr. She is terminated by mutual agreement between the two parties prior to 31 December of an Annual Bonus Year, Mr. She shall be entitled to two and a half per cent. of the increase in the Turnover for the period during which Mr. She is employed by the Employer as compared to the same period of the preceding calendar year provided that:

- (i) the Original Magic Group attains the Minimum Ratio for that relevant period; and

- (ii) the Baili EBIT is not zero or negative for that relevant period.

Additional Bonus

The Additional Bonus will be a cash amount payable by the Employer equal to two and a half per cent. of the aggregate increase in the Turnover over the Additional Bonus Years, provided that:

- (i) Mr. She has been the chief executive officer of the Magic Group throughout the Additional Bonus Years and remains so on 31 December 2016;
- (ii) the Original Magic Group attains the Minimum Ratio for all Additional Bonus Years. Otherwise, the Additional Bonus will be reduced by one-third for each Additional Bonus Year that the Magic Group is not able to attain the Minimum Ratio; and
- (iii) the Baili EBIT accumulated over the Additional Bonus Years is positive. Otherwise the Additional Bonus will be reduced by 20 per cent.

The reference years applicable to the determination of the Annual Bonus and the Additional Bonus assume that the Scheme will become effective on or before 30 June 2014. Where the Scheme becomes effective after 30 June 2014, the reference dates will be adjusted accordingly.

Term of the Service Agreement

The initial term of the Service Agreement will be a period commencing on the Effective Date, continuing for a term of at least three full calendar years, and shall end on the end of the third full calendar year, unless terminated in accordance with the terms of the Service Agreement.

Approval of the Remuneration Package and the Service Agreement

As Mr. She is a Shareholder and the Remuneration Package is applicable only to Mr. She and is not being offered to all Shareholders, the Remuneration Package constitutes a special deal under Rule 25 of the Takeovers Code and requires the consent of the Executive under Note 3 to Rule 25 of the Takeovers Code. The Offeror has therefore made an application to the Executive for its consent to the Remuneration Package as a special deal under Rule 25 of the Code, conditional on the Independent Financial Adviser publicly stating that in its opinion the terms of the Remuneration Package are fair and reasonable, and the passing of an ordinary resolution by the Independent Shareholders at an extraordinary general meeting of the Company to approve the terms of the Remuneration Package.

Accordingly, as set out in Condition (c), the Proposal and the Scheme are subject to (i) the receipt of a publicly stated opinion from the Independent Financial Adviser confirming that the terms of the Remuneration Package are fair and reasonable, and (ii) the passing of an ordinary resolution by the Independent Shareholders at an extraordinary general meeting of the Company to approve the terms of the Remuneration Package.

The full text of the letter from the Independent Board Committee is set out in Part V of this Scheme Document, and the full text of the letter from the Independent Financial Adviser is set out in Part VI of this Scheme Document.

Further, as the initial term of the Service Agreement is for a duration exceeding three years, pursuant to Rule 13.68 of the Listing Rules, the Service Agreement will be subject to Independent Shareholders' approval, and the Listing Rules Independent Board Committee shall form a view in respect of the Service Agreement and advise the Independent Shareholders as to (i) whether the terms of the Service Agreement are fair and reasonable, (ii) whether the Service Agreement is in the interests of the Company and the Shareholders as a whole and (iii) how to vote.

The full text of the letter from the Listing Rules Independent Board Committee is set out in Part VII of this Scheme Document

Retention Arrangement

As an indication of Mr. She's commitment to remain the chief executive officer of the Magic Group after completion of the Proposal, Mr. She will permit 20 per cent. of the consideration payable to him or SPVCo, as applicable, for the Shares held by him or SPVCo, as applicable, pursuant to the Scheme, to be placed into a HK\$ denominated escrow account at the Escrow Bank for the Retention Term. The Retention Amount will bear interest as set out in the Retention Arrangement Escrow Agreement.

The Retention Amount, together with interest earned on it, will be released from escrow to Mr. She upon completion of the Retention Term unless (i) he ceases to be employed by the Magic Group prior to the third anniversary of the Effective Date due to an inability by him to discharge his duties as chief executive officer of the Magic Group due to death or, in the reasonable opinion of an independent medical practitioner reasonably acceptable to him and the Offeror, long-term illness or permanent disability, in which case the Retention Amount, together with interest earned on it, will be released promptly from escrow to Mr. She or SPVCo (or his legal representative) upon the occurrence of such an event; or (ii) he resigns as chief executive officer of the Magic Group prior to the third anniversary of the Effective Date without the Employer's written consent, in which case the Retention Amount, together with interest earned on it, will be released promptly from escrow to the Offeror.

The Offeror, Mr. She and the Escrow Bank have entered into the Retention Arrangement Escrow Agreement on 20 February 2014 to implement the Retention Arrangement described above.

IMPLEMENTATION AGREEMENT

The Offeror, the Company and Mr. She have entered into the Implementation Agreement, which sets out certain mutual commitments in relation to the implementation of the Proposal and the Scheme, and certain matters relating to the conduct of the business of the Company and the Magic Group from the date of the Implementation Agreement until the earlier of the date the Scheme becomes effective and the termination of the Implementation Agreement in accordance with its terms.

Under the Implementation Agreement, each of the Offeror and the Company has undertaken to take all such steps as are reasonably necessary or desirable and within its power to ensure the satisfaction of the Pre-Conditions and the Conditions as soon as is reasonably practicable, and to keep the other informed of developments in respect of the satisfaction of the MOFCOM Pre-Condition on or about the 1st and 15th of each calendar month, and if and to the extent there are other material or potentially material developments in respect of the satisfaction of any Pre-Condition, as soon as is reasonably practicable. The Company shall notify its board of directors after it has been informed of such developments as soon as is reasonably practicable. In addition, the Company has undertaken not to, and the Company will procure that no member of the Magic Group will, without the prior written consent of the Offeror (not to be unreasonably withheld) and save for certain exceptions in relation to the Baili Acquisition:

- (a) carry on business other than in the ordinary course and in all material respects consistent with past practice;
- (b) alter the nature or scope of its business in any material way;
- (c) amend any term of the Baili Acquisition;
- (d) other than in the ordinary course of business, enter into, amend, supplement or terminate any material agreement of the Magic Group which involves an amount exceeding RMB5,000,000 for each agreement, save for the various contracts in connection with the construction, renovation, repair and maintenance and air-conditioning installation of the premises situated in Pingyiqiao Avenue, Shibi, Panyu District, Guangzhou City;
- (e) take any action which would materially delay or prejudice, or increase the cost of the Proposal or the Scheme;
- (f) commence any negotiations or enter into any binding commitments in connection with any material acquisitions or disposals involving a net asset value or consideration amount exceeding RMB5,000,000;
- (g) pay any dividend or make any distribution of profits or capital, save for (i) the interim dividend of approximately HK\$0.012 per Share for the six months ended 31 December 2012 as set out in the Company's announcement dated 25 February 2013; (ii) a final dividend for each of the financial years ending 30 June 2013 and 2014, respectively, provided the total dividends paid for each year shall not exceed 22.5

per cent. of the profits of the relevant year available for distribution of the Company (as shown in the Company's audited consolidated accounts); and (iii) an interim dividend for each of the six months ending 31 December 2013 and 2014, respectively, provided that the amount of dividend for each period shall not exceed 15 per cent. of the profits of the relevant period available for distribution of the Company (as shown in the Company's published consolidated accounts);

- (h) grant any options under the Share Option Scheme or make any share awards under the Share Award Plan or adopt or amend the Share Option Scheme or the Share Award Plan;
- (i) materially alter existing indebtedness between members of the Magic Group, save for any alteration which: (i) is in the ordinary course of business and in accordance with past practice of the Magic Group; and (ii) does not move any existing indebtedness between members of the Magic Group outside the PRC; and (iii) does not require the opening of bank accounts with banks that the Magic Group does not currently hold bank accounts with other than for the purposes of collection of amounts due from customers of the Magic Group;
- (j) sell, assign, transfer or dispose of material, or potentially material Intellectual Property or enter into any agreement with respect to the same;
- (k) enter into any new capital expenditure commitments which amounts in total to more than RMB40,000,000, which shall include any capital expenditure commitments in relation to the development of the site located at the north of Kaiyuan Road, the northwest side of the Yonghe tunnel, Guangzhou, to be used by Guangzhou MG-Bio-technology Co., Ltd. (廣州美即生物科技有限公司), a company incorporated in the PRC and a wholly-owned subsidiary of the Company, for the construction of a new manufacturing plant;
- (l) dispose of any interest in, or grant any encumbrance over, or sublet, any real estate asset;
- (m) agree to pay fees of more than HK\$25,000,000 in total to its advisers in connection with the Proposal;
- (n) adopt or implement any new incentive or bonus arrangements generally available to employees or directors of the Company in their capacity as such (but shall not affect existing incentive or bonus arrangements of the Company, subject to paragraph (h) above);

or agree to do any of the foregoing.

The Company has further undertaken to take all such steps as are reasonably necessary or desirable to ensure the implementation of the Proposal, or as may be reasonably requested by the Offeror in connection with the Proposal.

Under the terms of the Implementation Agreement, the Offeror may elect, subject to the consent of the Executive and the Company, to implement the Proposal by way of a general offer prior to the Scheme becoming effective, provided that (a) the Offer is made in accordance with the terms and conditions set out in the Announcement (with Conditions (a), (b), (d) and (e) being replaced with a condition that the acceptances to the Offer is at 90 per cent. (or such lesser percentage, being more than 50 per cent., as the Offeror may decide) of the Shares to which the Offer relates); (b) the Offer is made on financial terms at least as favourable as those of the Scheme of the shares to which such Offer relates; and (c) the financial terms of the Service Agreement and the Retention Arrangement Escrow Agreement are at least as favourable to Mr. She as they are in the case of implementation by way of the Scheme.

Until the earlier of the Effective Date and the termination of the Implementation Agreement in accordance with its terms, the Company has agreed not to, and shall procure that no member of the Magic Group shall, directly or indirectly solicit an offer or approach from any third party to acquire all or a substantial part of the share capital or a substantial part of the assets of the Company or any member of the Magic Group.

The Implementation Agreement will terminate (a) if the Announcement has not been released by 15 August 2013 (or such later date as the Offeror and the Company may agree); (b) if the Pre-Conditions are not satisfied or waived (as applicable) by 30 April 2014 (or such later date as the Offeror and the Company may agree); (c) if any Condition becomes incapable of satisfaction or is invoked so as to cause the Proposal not to proceed in circumstances where such invocation is in accordance with the Takeovers Code; (d) if the Scheme does not become effective, lapses in accordance with its terms or is withdrawn; or (e) if the Scheme does not become effective within four calendar months from the date of the satisfaction or waiver (as applicable) of all of the Pre-Conditions (unless, prior to the expiry of the four-month period, the Offeror and the Company have agreed to extend such period).

REASONS FOR AND BENEFITS OF THE PROPOSAL AND THE SERVICE AGREEMENT

The Offeror has identified the Company as the ideal fit to complement the Offeror Group's activity in the PRC. It has a great admiration for the impressive success story of the Company in terms of the strong management team, expertise in the mass consumer market, market presence, growth dynamics and profitability, developed under the leadership of its co-founders and with the support of its core shareholders. The Offeror believes the Company shares the same values of excellence, innovation and product quality as the Offeror Group, and trusts that the Company would effectively complement its presence in the PRC and that the two groups could share knowledge and expertise.

As such, the Offeror intends to continue, after the Scheme becomes effective, the existing business and operations of the Magic Group as an autonomous business unit of the Offeror. The Offeror expects to review the Company, its corporate structure, capitalisation, operations, assets, policies and employees to consider and determine what changes, if any, would be appropriate to best organise and optimise the activities of the Company. Subject to any changes arising from such review, the Offeror does not expect to introduce any major changes to the business or to discontinue the employment of the employees of the Magic Group, nor does it

have any plans to redeploy any fixed assets of the Company. The Board has noted such intentions of the Offeror in respect of the Company and its employees and will render reasonable co-operation with the Offeror for the smooth running of the business of the Magic Group.

In addition, the Offeror has identified Mr. She as the key person to lead the Company after completion of the Scheme. The Offeror views Mr. She as having considerable expertise in the facial mask business in the PRC and values his long established relationships with suppliers, local authorities and employees of the Magic Group. The Service Agreement will serve to incentivise Mr. She to remain with the Company for a term of at least three years and his Remuneration Package will serve to motivate him to continue to contribute to the growth and development of the Magic Group upon implementation of the Scheme.

The Company has identified the Offeror as the ideal partner in accessing new markets with the Offeror's existing PRC platform. The Company believes that the Offeror has a long proven development history in cosmetic and beauty products with proven brand building strategies which can help the growth and development of the Company. More importantly, the Company believes that the Offeror can also provide expertise in research and development. Having considered the benefits, the Company believes that the Proposal will create synergies for the Company.

BIOGRAPHICAL INFORMATION OF MR. SHE

Mr. She Yu Yuan (佘雨原) (formerly known as She Dan Dan (佘丹丹) and She Jing Yang (佘勁楊)), aged 41, a co-founder of the Magic Group, has over 10 years of market and corporate management experience, 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 Magic Group. Mr. She graduated from South China University of Technology (華南理工大學) with a diploma in food engineering. Mr. She co-founded the Magic Group in 2005. Mr. She holds directorships in certain subsidiaries of the Company.

INDEPENDENT BOARD COMMITTEES

An Independent Board Committee, which comprises Mr. Sun Yan, Mr. Chen Dar Cin, Mr. Yan Kam Tong, Professor Dong Yin Mao and Professor Yang Rude, which comprises all the non-executive directors of the Company, has been established by the Board to make a recommendation to the Shareholders as to whether each of the Proposal, the Scheme and the Service Agreement, including the terms of the Remuneration Package, are, or are not, fair and reasonable and as to voting.

The full text of the letter from the Independent Board Committee is set out in Part V of this Scheme Document.

In addition, pursuant to Rule 13.68 of the Listing Rules, the Listing Rules Independent Board Committee, which comprises all the independent non-executive directors of the Company, namely Mr. Yan Kam Tong, Professor Dong Yin Mao and Professor Yang Rude, has been established by the Board to form a view in respect of the Service Agreement and to

make a recommendation to the Independent Shareholders as to whether the terms of the Service Agreement are, or are not, fair and reasonable and in the interests of the Company and its shareholders as a whole and on how to vote.

The full text of the letter from the Listing Rules Independent Board Committee is set out in Part VII of this Scheme Document.

INDEPENDENT FINANCIAL ADVISER

Quam Capital Limited has been appointed as the Independent Financial Adviser (with the approval of the Independent Board Committees) to advise the Independent Board Committees in connection with the Proposal, the Scheme and the Service Agreement, including the Remuneration Package.

The full text of the letter from the Independent Financial Adviser is set out in Part VI of this Scheme Document.

IRREVOCABLE UNDERTAKINGS

The Founders, Baring, Greenwoods and Atlantis, as principal and/or on behalf of the Atlantis Investors, had each given irrevocable undertakings to the Offeror, amongst other things, to the extent permitted under the Takeovers Code, the Listing Rules and applicable laws, to exercise the voting rights in respect of an aggregate of 524,873,058 Shares, representing approximately 50.57% of the issued share capital of the Company as at the Latest Practicable Date, on resolutions in relation to the Proposal and the Scheme in accordance with the Offeror's directions, and in the absence of any such directions, to vote in favour of all resolutions which are necessary to implement the Proposal and the Scheme proposed at a general or class meeting of the Company. Note the aggregate number of Shares and the corresponding percentage of the issued share capital of the Company referred to above do not include the 121,459,929 Shares, representing approximately 11.70% of the issued share capital of the Company as at the Latest Practicable Date, which are subject to the irrevocable undertaking given by Mr. She on the basis Mr. She is not entitled to exercise the voting rights in respect of such Shares to vote in favour of resolutions which are necessary to implement the Proposal and the Scheme proposed at a general or class meeting of the Company.

Subsequent to the Announcement Date, Atlantis filed a public disclosure form dated 30 October 2013 under Rule 22 of the Takeovers Code in respect of a disposal of 30,260,318 Shares (the "**Relevant Shares**"). The Offeror has been informed that Atlantis ceased to be the manager of the Relevant Shares on 29 October 2013. However, the beneficial holder of the Relevant Shares has confirmed to the Offeror that it will vote all of the Relevant Shares in favour of the Proposal and the Scheme, and will not otherwise deal in or dispose of the Relevant Shares. For more details, please see the joint clarification announcement issued by the Offeror and the Company on 12 November 2013.

Your attention is drawn to the section headed "16. Irrevocable Undertakings" in Part VIII — Explanatory Memorandum of this Scheme Document.

INFORMATION ON THE COMPANY

The Company is an exempted company incorporated in the Cayman Islands with limited liability, whose ordinary shares have been listed on the Main Board of the Stock Exchange since 24 September 2010. The Magic Group is principally engaged in the manufacture, sale and marketing of facial masks, wholesaling and retailing skincare, facial masks and other products on the internet and retail shops in China.

INFORMATION ON THE OFFEROR

The Offeror is a company incorporated in France as a société anonyme, whose shares are traded on the Paris Stock Exchange. The Offeror is one of the world's leading beauty companies, has catered to all forms of beauty products in the world for over 100 years and has built a portfolio of 28 international, diverse and complementary brands. With sales amounting to EUR23 billion in 2013, the Offeror employs 77,400 people worldwide.

WITHDRAWAL OF LISTING OF THE SHARES

Upon the Scheme becoming effective, all Shares will be cancelled and the share certificates for the Shares will thereafter cease to have effect as documents or evidence of title. The Offeror does not intend the Company to remain listed on the Stock Exchange. The Company will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange to take effect immediately following the Effective Date. The Shareholders will be notified by way of an announcement of the exact dates of the last day for dealing in the Shares and on which the Scheme and the withdrawal of the listing of the Shares on the Stock Exchange will become effective.

IF THE SCHEME IS NOT APPROVED OR THE PROPOSAL LAPSES

The Proposal will lapse if it does not become effective on or before 29 April 2014 (or such later date as the Offeror and the Company may agree and the Grand Court may allow and in accordance with the Takeovers Code), and the Shareholders will be notified by way of announcement accordingly. If the Scheme is not approved or the Proposal otherwise lapses, trading of the Shares on the Stock Exchange will resume. In such circumstances, the Company has no intention to seek the immediate withdrawal of the listing of the Shares on the Stock Exchange in connection with the Proposal. The Company retains full flexibility to voluntarily terminate at a later date the listing of the Shares on the Stock Exchange, subject to compliance with applicable law, listing requirements and the requirements of the Takeovers Code (if applicable).

If the Scheme is not approved or the Proposal otherwise lapses, there are restrictions under the Takeovers Code on making subsequent offers to the effect that neither the Offeror nor any person who acted in concert with it in the course of the Proposal (nor any person who is subsequently acting in concert with any of them) may within 12 months from the date on which the Proposal lapses announce an offer or possible offer for the Company, except with the consent of the Executive.

COURT MEETING AND EGM

Court Meeting

In accordance with the directions of the Grand Court, the Court Meeting will be held for the purpose of considering and, if thought fit, passing a resolution to approve the Scheme (with or without modifications).

Shareholders whose names appear in the register of members of the Company as at the Meeting Record Date shall be entitled to attend and vote, in person or by proxy, at the Court Meeting. At the Court Meeting, Shareholders, present and voting either in person or by proxy, will be entitled to vote all of their Shares in favour of the Scheme or against it. Alternatively, Shareholders may vote some of their Shares in favour of the Scheme and any or all of the balance of their respective Shares against it (and vice versa).

The Scheme is conditional upon, amongst other things, approval by a majority in number of the Shareholders representing not less than 75% in value of the Shares present and voting in person or by proxy at the Court Meeting, provided that (i) the Scheme is approved (by way of poll) by Independent Shareholders holding at least 75% of the votes attaching to the Shares held by Independent Shareholders that are voted either in person or by proxy at the Court Meeting; and (ii) the number of votes cast (by way of poll) by Independent Shareholders present and voting either in person or by proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Shares held by all the Independent Shareholders.

Pursuant to the Companies Law, the “75% in value” requirement will be met if the total value of the Shares being voted by the Shareholders in favour of the Scheme is at least 75% of the total value of the Shares voted by the Shareholders at the Court Meeting. The “majority in number” requirement will be met if the number of Shareholders voting in favour of the Scheme exceeds the number of Shareholders voting against the Scheme. For the purpose of calculating the “majority in number” requirement, the number of Shareholders, present and voting in person or by proxy, will be counted. For example, if a Shareholder votes all of his/her/its Shares in favour of the Scheme, he/she/it will be counted as one Shareholder voting in favour of the Scheme for the purposes of the “majority in number” requirement. However, for the purpose of the Takeovers Code, only the number of Shares from an Independent Shareholder being so voted will count towards the “75% in value” requirement.

Notice of the Court Meeting is set out in Appendix IV to this Scheme Document. The Court Meeting will be held at 2:00 p.m. (Hong Kong time) on Monday, 24 March 2014 at Marina Room I, 2/F, The Excelsior Hotel, 281 Gloucester Road, Causeway Bay, Hong Kong.

EGM

The EGM will be held immediately following the Court Meeting.

All Shareholders whose names appear in the register of members of the Company as at the Meeting Record Date shall be entitled to attend and vote, in person or by proxy, at the EGM with respect to (i) the special resolution to approve the capital reduction resulting from cancellation of the Shares; and (ii) the ordinary resolution to immediately restore the Company's issued share capital to its former amount and apply the credit arising in the Company's books of accounts as a result of the capital reduction in paying up in full at par and issuing to the Offeror a number of new Shares equal to the number of Shares cancelled. All Independent Shareholders whose names appear in the register of members of the Company as at the Meeting Record Date shall be entitled to attend and vote, in person or by proxy, at the EGM, with respect to (iii) the ordinary resolution to approve the terms of the Service Agreement, including the Remuneration Package.

The special resolution described under (i) in the paragraph above will be passed if not less than three-fourths of the votes cast by Shareholders, present and voting in person or by proxy, at the EGM are in favour of the special resolution. The ordinary resolution described under (ii) in the paragraph above will be passed if more votes are cast in favour of the ordinary resolution than against it by the Shareholders, present and voting either in person or by proxy, at the EGM. The ordinary resolution described under (iii) in the paragraph above will be passed if more votes are cast in favour of the ordinary resolution than against it by the Independent Shareholders, present and voting, either in person or by proxy, at the EGM.

At the EGM, a poll will be taken and each Shareholder or Independent Shareholder (as the case may be) present and voting, either in person or by proxy, will be entitled to vote all of his/her/its Shares in favour (or against) the special resolution and/or the ordinary resolutions. Alternatively, such Shareholder or Independent Shareholder (as the case may be) may vote some of their Shares in favour of the special resolution and/or the ordinary resolutions and any of the balance of their Shares against the special resolution and/or the ordinary resolutions (and vice versa).

Notice of the EGM is set out in Appendix V to this Scheme Document. The EGM will be held at 3:00 p.m. (Hong Kong time) (or so soon thereafter as the Court Meeting convened for the same day and place shall have been concluded or adjourned) on Monday, 24 March 2014 at Marina Room I, 2/F, The Excelsior Hotel, 281 Gloucester Road, Causeway Bay, Hong Kong.

Assuming that the Conditions are fulfilled (or, as applicable, waived in whole or in part), it is expected that the Scheme will become effective on or before Monday, 7 April 2014. Further announcements will be made giving details of the results of the Court Meeting and EGM and, if all the resolutions are passed at those meetings, the result of the hearing of the petition for the sanction of the Scheme by the Grand Court, the Record Date, the Effective Date, and the date of withdrawal of the listing of Shares on the Stock Exchange.

Your attention is drawn to the section headed "23. Court Meeting and EGM" in Part VIII — Explanatory Memorandum of this Scheme Document.

RECOMMENDATION

The directors of the Company believe that the terms of the Proposal, the Scheme and the Service Agreement, including the Remuneration Package, are fair and reasonable and in the interests of the Shareholders as a whole.

In the letter from the Independent Financial Adviser set out in Part VI of this Scheme Document, the Independent Financial Adviser states that it considers the terms of the Proposal, the Scheme and the Service Agreement, including the Remuneration Package, to be fair and reasonable and advises the Independent Board Committees to recommend:

- (a) at the Court Meeting:
 - (i) the Independent Shareholders to vote in favour of the Scheme;
- (b) at the EGM:
 - (i) the Shareholders to vote in favour of:
 - (1) the special resolution to approve and give effect to the reduction of the issued share capital of the Company by cancelling and extinguishing the Shares; and
 - (2) the ordinary resolution to immediately restore the issued share capital of the Company to the same amount as immediately prior to the cancellation of the Shares by paying up in full at par such number of new Shares as is equal to the number of Shares cancelled as a result of the Scheme, credited as fully paid, for issuance to the Offeror; and
 - (ii) the Independent Shareholders to vote in favour of the ordinary resolution to approve the terms of the Service Agreement, including the Remuneration Package.

The full text of the letter from the Independent Financial Adviser is set out in Part VI of this Scheme Document.

The Independent Board Committee, having considered the terms of the Proposal, the Scheme and the Service Agreement, including the Remuneration Package, and having taken into account the opinion of the Independent Financial Adviser, and in particular the factors, reasons and recommendations set out in its letter in Part VI of this Scheme Document, considers that the terms of the Proposal, the Scheme and the Service Agreement, including the Remuneration Package, are fair and reasonable.

Accordingly, the Independent Board Committee recommends:

- (a) at the Court Meeting:
 - (i) the Independent Shareholders to vote in favour of the Scheme;

- (b) at the EGM:
- (i) the Shareholders to vote in favour of:
- (1) the special resolution to approve and give effect to the reduction of the issued share capital of the Company by cancelling and extinguishing the Shares; and
 - (2) the ordinary resolution to immediately restore the issued share capital of the Company to the same amount as immediately prior to the cancellation of the Shares by paying up in full at par such number of new Shares as is equal to the number of Shares cancelled as a result of the Scheme, credited as fully paid, for issuance to the Offeror; and
- (ii) the Independent Shareholders to vote in favour of the ordinary resolution to approve the terms of the Service Agreement, including the Remuneration Package.

The full text of the letter from the Independent Board Committee is set out in Part V of this Scheme Document.

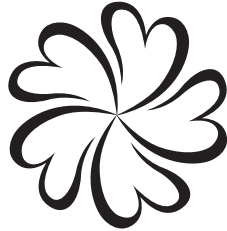
The Listing Rules Independent Board Committee, having considered the terms of the Service Agreement, and having taken into account the opinion of the Independent Financial Adviser, in particular the factors, reasons and recommendations set out in its letter in Part VI of this Scheme Document, considers that the terms of the Service Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Listing Rules Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution to approve the terms of the Service Agreement at the EGM.

The full text of the letter from the Listing Rules Independent Board Committee is set out in Part VII of this Scheme Document.

FURTHER INFORMATION

You are urged to read carefully the letters from the Independent Board Committee and from Quam Capital Limited, the Independent Financial Adviser, as set out in Parts V and VI of this Scheme Document, respectively, the letter from the Listing Rules Independent Board Committee as set out in Part VII of this Scheme Document, the Explanatory Memorandum as set out in Part VIII of this Scheme Document, the Appendices to this Scheme Document namely, Financial information on the Company as set out in Appendix I, General information on the Company and the Offeror as set out in Appendix II, the Scheme as set out in Appendix III, the notice of the Court Meeting as set out in Appendix IV and the notice of the EGM as set out in Appendix V. In addition, a **pink** form of proxy for the Court Meeting and a **white** form of proxy for the EGM are enclosed with copies of this Scheme Document sent to Registered Owners of the Shares.

Yours faithfully
For and on behalf of the Board of
Magic Holdings International Limited
Tang Siu Kun, Stephen
Chairman



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)

Members of the Independent Board Committee:

Non-executive Directors:

SUN Yan
CHEN Dar Cin

Independent non-executive Directors:

YAN Kam Tong
DONG Yin Mao
YANG Rude

Registered office:

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

28 February 2014

To: The Shareholders

Dear Sir or Madam,

**(1) CONDITIONAL PROPOSAL FOR ALL THE ISSUED SHARES OF
MAGIC HOLDINGS INTERNATIONAL LIMITED BY L'ORÉAL S.A.
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 86 OF THE COMPANIES LAW (2013 REVISION)
OF THE CAYMAN ISLANDS)
and
(2) RULE 25 TRANSACTION UNDER THE TAKEOVERS CODE
and
(3) DIRECTOR'S SERVICE AGREEMENT SUBJECT TO INDEPENDENT
SHAREHOLDERS' APPROVAL UNDER RULE 13.68 OF THE LISTING RULES
and
(4) PROPOSED WITHDRAWAL OF LISTING OF
MAGIC HOLDINGS INTERNATIONAL LIMITED**

We have been appointed by the Board as the Independent Board Committee to give a recommendation to the Independent Shareholders in respect of the Proposal, the Scheme and the Service Agreement, including the Remuneration Package, respectively, details of which are set out in Part IV — Letter from the Board and Part VIII — Explanatory Memorandum of this Scheme Document. Terms defined in the Scheme Document shall have the same meanings in this letter unless the context otherwise requires.

Quam Capital Limited, the Independent Financial Adviser, has been appointed by the Board with our approval to advise us in connection with the Proposal, the Scheme and the Service Agreement, including the Remuneration Package.

The Independent Board Committee, having considered the terms of the Proposal, the Scheme and the Service Agreement, including the Remuneration Package, and having taken into account the opinion of the Independent Financial Adviser, in particular the factors, reasons and recommendations set out in its letter in Part VI of this Scheme Document, considers that the terms of the Proposal, the Scheme and the Service Agreement, including the Remuneration Package, are fair and reasonable.

Accordingly, the Independent Board Committee recommends:

(a) at the Court Meeting:

(i) the Independent Shareholders to vote in favour of the Scheme;

(b) at the EGM:

(i) the Shareholders to vote in favour of:

(1) the special resolution to approve and give effect to the reduction of the issued share capital of the Company by cancelling and extinguishing the Shares; and

(2) the ordinary resolution to immediately restore the issued share capital of the Company to the same amount as immediately prior to the cancellation of the Shares by paying up in full at par such number of new Shares as is equal to the number of Shares cancelled as a result of the Scheme, credited as fully paid, for issuance to the Offeror; and

(ii) the Independent Shareholders to vote in favour of the ordinary resolution to approve the terms of the Service Agreement, including the Remuneration Package.

The Independent Board Committee draws the attention of the Independent Shareholders to (i) the letter from the Board set out in Part IV of the Scheme Document; (ii) the letter from Quam Capital Limited, the Independent Financial Adviser, which sets out the factors and reasons taken into account in arriving at its recommendation to the Independent Board Committee, set out in Part VI of the Scheme Document; and (iii) the Explanatory Memorandum set out in Part VIII of the Scheme Document.

Yours faithfully

Sun Yan

Non-executive director of the Company

Chen Dar Cin

Non-executive director of the Company

Yan Kam Tong

*Independent non-executive
director of the Company*

Dong Yin Mao

*Independent non-executive
director of the Company*

Yang Rude

*Independent non-executive
director of the Company*

Independent Board Committee

The following is the full text of a letter of advice from Quam Capital Limited, the independent financial adviser to the Independent Board Committees, which has been prepared for the purpose of incorporation into this Scheme Document, setting out its advice to the Independent Board Committee in respect of the Proposal, the Scheme and the Service Agreement, including the Remuneration Package and its advice to the Listing Rules Independent Board Committee in respect of the Service Agreement pursuant to Rule 13.68 of the Listing Rules.

**Quam Capital Limited**

A Member of The Quam Group

28 February 2014

To the Independent Board Committees

Dear Sir or Madam,

**(1) CONDITIONAL PROPOSAL FOR ALL THE ISSUED SHARES OF
MAGIC HOLDINGS INTERNATIONAL LIMITED
BY L'ORÉAL S.A.
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 86 OF THE COMPANIES LAW
(2013 REVISION) OF THE CAYMAN ISLANDS);
(2) RULE 25 TRANSACTION UNDER THE TAKEOVERS CODE;
(3) DIRECTOR'S SERVICE AGREEMENT SUBJECT
TO INDEPENDENT SHAREHOLDERS' APPROVAL
UNDER RULE 13.68 OF THE LISTING RULES
and
(4) PROPOSED WITHDRAWAL OF LISTING OF
MAGIC HOLDINGS INTERNATIONAL LIMITED**

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committees in respect of the Proposal by way of a scheme of arrangement under section 86 of the Companies Law, the subsequent withdrawal of listing of the Shares on the Stock Exchange and the Service Agreement. Details of the Proposal, the Scheme and the Service Agreement, including the Remuneration Package are contained in Part IV — Letter from the Board and Part VIII — Explanatory Memorandum contained in the scheme document jointly issued by the Offeror and the Company to all Shareholders dated 28 February 2014 (the “**Scheme Document**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Scheme Document unless the context otherwise requires.

On 15 August 2013, the Offeror and the Company jointly announced that on 12 August 2013, the Offeror requested the Board to put forward the Proposal to the Scheme Shareholders for a proposed acquisition of all the issued Shares by way of a scheme of arrangement under Section 86 of the Companies Law, subject to satisfaction, or waiver, as appropriate, of the Pre-Conditions and the Conditions. The Offeror and the Company jointly announced on 13 January 2014 that the Pre-Conditions were satisfied. Upon the Scheme becoming effective, the Shares will be cancelled and, in consideration thereof, each Scheme Shareholder will be entitled to receive HK\$6.30 in cash for each Share held, and the Offeror will make an application for the withdrawal of the listing of the Shares on the Stock Exchange. In such event, the Company will be wholly-owned by the Offeror.

In addition, upon the Scheme becoming effective, Mr. She, an executive director of the Company, will serve as chief executive officer of the Magic Group and director of Magic Holdings Group Limited, a wholly-owned subsidiary of the Company, in order to continue to contribute to the growth and development of the Company and work with the Offeror to further build the MG brand of the Magic Group. Accordingly, the Employer and Mr. She have entered into the Service Agreement setting out the terms of employment of Mr. She, which will be subject to the approval of the Board and will take effect on the Effective Date.

Pursuant to the terms of the Service Agreement, Mr. She will be entitled to the Base Salary, the Regular Bonus, the Retention Bonus, the Annual Bonus and the Additional Bonus, collectively the Remuneration Package. L'Oréal China has executed a guarantee in favour of Mr. She to guarantee the due performance by the Employer of its obligations under the Service Agreement.

As at the Latest Practicable Date, the authorised share capital of the Company was HK\$200,000,000 divided into 2,000,000,000 Shares, and the issued share capital of the Company was HK\$103,789,273.6 divided into 1,037,892,736 Shares. The Offeror and the Offeror Concert Parties held 132,000 Shares, representing approximately 0.01% of the issued share capital of the Company. Such Shares will not be voted on the Scheme at the Court Meeting. As at the Latest Practicable Date, the shares under the Scheme (the “**Scheme Shares**”) represented approximately 100% of the issued share capital of the Company. As at the Latest Practicable Date, there were no outstanding share options granted under the Share Option Scheme.

The Independent Board Committee, which comprises Mr. Sun Yan, Mr. Chen Dar Cin, Mr. Yan Kam Tong, Professor Dong Yin Mao and Professor Yang Rude, being the non-executive directors of the Company, has been established by the Board to make recommendation to the Independent Shareholders on the terms of the Proposal, the Scheme and the Service Agreement, including the Remuneration Package. The Listing Rules Independent Board Committee, which comprises Mr. Yan Kam Tong, Professor Dong Yin Mao and Professor Yang Rude, being the independent non-executive directors of the Company, has been established by the Board to make recommendation to the Independent Shareholders in respect of the Service Agreement pursuant to Rule 13.68 of the Listing Rules. The Independent Board Committees have approved our appointment as the Independent Financial Adviser to the

Independent Board Committees in connection with the Proposal, the Scheme and the Service Agreement, including the Remuneration Package. As the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committees in such regard.

Quam Capital Limited is not associated or connected with any members of the Magic Group, or the Offeror, or any of their respective substantial shareholders, directors or chief executives, or any of their respective associates, or any party acting, or presumed to be acting, in concert with any of them and accordingly, we are considered eligible to give independent advice to the Independent Board Committees on the Proposal, the Scheme and the Service Agreement, including the Remuneration Package. Apart from normal professional fees payable to us in connection with this engagement, no arrangement exists whereby we will receive any fees or benefits from any members of the Magic Group, or the Offeror, or any of their respective substantial shareholders, directors or chief executives, or any of their respective associates, or any party acting, or presumed to be acting, in concert with any of them.

BASIS OF OUR OPINION

In formulating our recommendation, we have relied on (i) the information and facts contained or referred to in the Scheme Document; (ii) the information supplied by the Company and its advisers; (iii) the opinions expressed by and the representations of the directors of the Company and management of the Magic Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Scheme Document were true, accurate and complete in all respects at the date thereof and may be relied upon. We have no reason to doubt the truth, accuracy and completeness of such information and representations provided to us by the management of the Magic Group, and the directors and the advisers of the Company. We have also sought and received confirmation from the directors of the Company that no material facts has been withheld or omitted from the information provided and referred to in the Scheme Document and that all information or representations regarding the Company, the Proposal, the Scheme, the Service Agreement and the Remuneration Package provided to us by the Company and/or the directors of the Company and the management of the Magic Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the Court Meeting and the EGM. The Company is obliged to inform the Shareholders if there is any material change to the information disclosed in the Scheme Document prior to the date of the Court Meeting and the EGM, in which case we will consider whether it is necessary to revise our opinion and inform the Independent Board Committees and the Independent Shareholders accordingly.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Scheme Document so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Company or any of its subsidiaries and associates.

We have not considered the tax implications on the Shareholders regarding the Scheme since these are particular to their individual circumstances. In particular, Shareholders who are residents overseas or subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

PRINCIPAL TERMS OF THE PROPOSAL

As disclosed in Part IV — Letter from the Board of the Scheme Document, subject to the fulfilment or waiver (as applicable) of the Conditions as described in Part VIII — Explanatory Memorandum of the Scheme Document, the Proposal will be implemented by way of the Scheme. Upon the Scheme becoming effective, the Offeror will hold the entire issued share capital of the Company and it is expected that the listing of the Shares on the Stock Exchange will be withdrawn.

1. The Scheme

Under the Scheme, the issued share capital of the Company will, on the Effective Date, be reduced by cancelling and extinguishing the Shares, and immediately following such reduction, the issued share capital of the Company will be restored to its former amount by the issuance at par to the Offeror credited as fully paid of the same number of Shares as is equal to the Shares cancelled. The reserve created in the Company's books of account as a result of the capital reduction will be applied to the paying up in full at par the new Shares so issued to the Offeror.

Subject to the Scheme becoming effective, each Shareholder whose name appears in the register of members of the Company at the Record Date will be entitled to receive HK\$6.30 in cash for each Share. The total consideration of approximately HK\$6,538.72 million for the Scheme Shares will be payable by the Offeror.

The Scheme will become effective and binding upon the fulfilment or waiver (as applicable) of the Conditions set out in the section headed “3. Conditions of the Proposal and the Scheme” in Part VIII — Explanatory Memorandum of the Scheme Document, otherwise the Scheme will lapse.

2. Awarded Shares

As at the Latest Practicable Date, there were 15,442,669 Shares held by the Share Award Plan Trustee under the Share Award Plan, of which 11,833,490 were Awarded Shares. The remaining 3,609,179 Shares were issued to the Share Award Plan Trustee as a result of a scrip dividend scheme and bonus issue by the Company in December 2010 and December 2011 respectively. These 3,609,179 Shares were held by the Share Award Plan Trustee for and on behalf of the respective grantees until the relevant vesting dates. All of the above 15,442,669 Shares were held by the Share Award Plan Trustee for and on behalf of the respective grantees until the relevant vesting dates.

As the terms of the Share Award Plan do not give grantees of Awarded Shares any legal or beneficial rights to Awarded Share(s) prior to their vesting, the Offeror will not be making an offer to the grantees of Awarded Shares under the Share Award Plan. The Company has procured that any consideration payable by the Offeror to the Share Award Plan Trustee as a Scheme Shareholder pursuant to the Scheme shall be held on trust for the grantees of the Awarded Share(s) (including the Other Distributions). Such amounts shall be paid by the Share Award Plan Trustee to the grantees of the Awarded Share(s) by reference to the number of Awarded Share(s) (including the Other Distributions) attributable to such grantees on the Record Date as soon as possible within seven Business Days following the Scheme becoming effective. Details of the Awarded Shares are set out in the section headed “11. Awarded Shares” in Part VIII — Explanatory Memorandum of the Scheme Document. None of the Awarded Shares under the Share Award Plan nor the Other Distributions will vest in the relevant grantee on or prior to the Record Date.

3. Irrevocable Undertakings

The Founders, Baring, Greenwoods and Atlantis, as principal and/or on behalf of the Atlantis Investors, had each given irrevocable undertakings to the Offeror, amongst other things, to the extent permitted under the Takeovers Code, the Listing Rules and applicable laws, to exercise the voting rights in respect of an aggregate of 524,873,058 Shares, representing approximately 50.57% of the issued share capital of the Company as at the Latest Practicable Date, on resolutions in relation to the Proposal and the Scheme in accordance with the Offeror’s directions, and in the absence of any such directions, to vote in favour of all resolutions which are necessary to implement the Proposal and the Scheme proposed at a general or class meeting of the Company.

Subsequent to the Announcement Date, Atlantis filed a public disclosure form dated 30 October 2013 under Rule 22 of the Takeovers Code in respect of a disposal of 30,260,318 Shares (the “**Relevant Shares**”). The Offeror has been informed that Atlantis ceased to be the manager of the Relevant Shares on 29 October 2013. However, the beneficial holder of the Relevant Shares has confirmed to the Offeror that it will vote all of the Relevant Shares in favour of the Proposal and the Scheme, and will not otherwise deal in or dispose of the Relevant Shares. For more details, please see the joint clarification announcement issued by the Offeror and the Company on 12 November 2013.

Details of the irrevocable undertakings are set out in the section headed “16. Irrevocable Undertakings” in Part VIII — Explanatory Memorandum of the Scheme Document.

4. The Service Agreement and the Remuneration Package

Upon the Scheme becoming effective, Mr. She, currently an executive director of the Company, will serve as chief executive officer of the Magic Group and director of Magic Holdings Group Limited, a wholly-owned subsidiary of the Company. Accordingly, the Employer and Mr. She have entered into a Service Agreement setting out the terms of employment of Mr. She, which will be subject to the approval of the Board and will take

effect on the Effective Date. L'Oréal China has executed a guarantee in favour of Mr. She to guarantee the due performance by the Employer of its obligations under the Service Agreement. Details of the Service Agreement are set out in the section headed "Service Agreement and Remuneration Package" in Part IV — Letter from the Board of the Scheme Document.

5. Retention Arrangement

As an indication of Mr. She's commitment to remain the chief executive officer of the Magic Group after completion of the Proposal, Mr. She will permit 20% of the consideration payable to him or SPVCo, as applicable, for the Shares held by him or SPVCo, as applicable, pursuant to the Scheme, to be placed into a HK\$ denominated escrow account at the Escrow Bank for the Retention Term. The Retention Amount will bear interest as set out in the Retention Arrangement Escrow Agreement.

The Retention Amount, together with interest earned on it, will be released from escrow to Mr. She upon completion of the Retention Term unless (i) he ceases to be employed by the Magic Group prior to the third anniversary of the Effective Date due to an inability by him to discharge his duties as chief executive officer of the Magic Group due to death or, in the reasonable opinion of an independent medical practitioner reasonably acceptable to him and the Offeror, long-term illness or permanent disability, in which case the Retention Amount, together with interest earned on it, will be released promptly from escrow to Mr. She or SPVCo (or his legal representative) upon the occurrence of such an event; or (ii) he resigns as chief executive officer of the Magic Group prior to the third anniversary of the Effective Date without the Employer's written consent, in which case the Retention Amount, together with interest earned on it, will be released promptly from escrow to the Offeror.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation regarding the terms of the Proposal, the Scheme, the Service Agreement and the Remuneration Package, we have considered the following principal factors and reasons:

A. The Proposal and the Scheme

1. Reasons for and benefits of the Proposal to the Scheme Shareholders

As stated in Part VIII — Explanatory Memorandum of the Scheme Document, the reasons for and the benefits of the Proposal are:

- (a) the Offeror has identified the Company as the ideal fit to complement the Offeror Group's activity in the PRC. It has a great admiration for the impressive success story of the Company in terms of the strong management team, expertise in the mass consumer market, market presence, growth dynamics and profitability, developed under the leadership of its co-founders and with the support of its core shareholders;

- (b) the Offeror believes the Company shares the same values of excellence, innovation and product quality as the Offeror Group, and trusts that the Company would effectively complement its presence in the PRC and that the two groups could share knowledge and expertise;
- (c) the Company has identified the Offeror as the ideal partner in accessing new markets with the Offeror's existing PRC platform. The Company believes that the Offeror has a long proven development history in cosmetic and beauty products with proven brand building strategies which can help the growth and development of the Company; and
- (d) the Company believes that the Offeror can provide expertise in research and development. Having considered the benefits, the Company believes that the Proposal will create synergies for the Company.

In view of the above, the Offeror has requested the Board to put forward the Proposal to the Scheme Shareholders for consideration. The Board believes that the Proposal provides an opportunity for all the Scheme Shareholders to realise their investments in the Company at a premium over the prevailing average market prices of the Shares.

2. Information on the Magic Group

The Company is an exempted company incorporated in the Cayman Islands with limited liability, whose ordinary shares have been listed on the Main Board of the Stock Exchange since 24 September 2010.

The Magic Group is principally engaged in manufacture, sale and marketing of facial masks, wholesaling and retailing of skincare, facial mask and other products on the Internet and retail shops in China. According to the annual report of the Company for the year ended 30 June 2013, the Magic Group had a total of 363 distributors and 13,852 terminal stores coverage as at 30 June 2013. As disclosed in the Company's interim results announcement for the six months ended 31 December 2013, the MG brand carries over 170 types of peel-off and wash-off facial mask products within a range of 13 product series. Revenue of the Magic Group was principally generated in the PRC market.

3. Financial performance of the Magic Group

(i) Historical financial performance of the Magic Group

The following table summarises the audited financial results of the Magic Group for each of the three years ended 30 June 2013 as extracted from the respective annual reports of the Company (the “**Annual Reports**”) and the unaudited financial results of the Magic Group for the six months ended 31 December 2012 and 2013 as extracted from the Company’s interim report and results announcement respectively:

	For the six months ended 31 December		For the year ended 30 June		
	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)	2013 HK\$'000	2012 HK\$'000	2011 HK\$'000
Revenue	<u>891,050</u>	<u>821,372</u>	<u>1,690,540</u>	<u>1,349,409</u>	<u>957,322</u>
Cost of sales	<u>(230,212)</u>	<u>(192,857)</u>	<u>(404,395)</u>	<u>(316,399)</u>	<u>(221,572)</u>
Gross profit	660,838	628,515	1,286,145	1,033,010	735,750
Other income and gains	13,107	5,056	21,713	16,678	14,507
Selling and distribution costs	(549,809)	(458,989)	(933,982)	(691,984)	(492,516)
Administrative expenses	(86,212)	(48,072)	(97,442)	(92,447)	(53,612)
Gain on derecognition of derivative financial instruments	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>5,100</u>
Profit before tax	<u>37,924</u>	<u>126,510</u>	<u>276,434</u>	<u>265,257</u>	<u>209,229</u>
Income tax expense	<u>(17,393)</u>	<u>(30,050)</u>	<u>(77,622)</u>	<u>(65,130)</u>	<u>(49,075)</u>
Profit for the year/ period	<u><u>20,531</u></u>	<u><u>96,460</u></u>	<u><u>198,812</u></u>	<u><u>200,127</u></u>	<u><u>160,154</u></u>
Profit attributable to — Equity holders of the Company	<u>27,322</u>	<u>100,037</u>	<u>207,095</u>	<u>204,513</u>	<u>160,523</u>
— Non-controlling interests	<u>(6,791)</u>	<u>(3,577)</u>	<u>(8,283)</u>	<u>(4,386)</u>	<u>(369)</u>
	<u><u>20,531</u></u>	<u><u>96,460</u></u>	<u><u>198,812</u></u>	<u><u>200,127</u></u>	<u><u>160,154</u></u>
Dividend paid	—	12,246	43,383	36,701	30,057

	For the six months ended 31 December		For the year ended 30 June		
	2013	2012	2013	2012	2011
	(Unaudited)	(Unaudited)			(Restated)
Earnings per share attributable to ordinary shareholders of the Company					
— basic (HK\$)	2.63 cents	9.88 cents	20.35 cents	20.36 cents	16.94 cents
— diluted (HK\$)	2.62 cents	9.80 cents	20.20 cents	20.23 cents	16.94 cents
Gross profit margin (Note 1)	74.2%	76.5%	76.1%	76.6%	76.9%
Net profit margin (Note 2)	3.1%	12.2%	12.3%	15.2%	16.8%
Revenue growth rate	8.5%	30.8%	25.3%	41.0%	51.7%
Net profit growth rate (Note 3)	(72.7%)	21.1%	(0.7%)	25.0%	35.4%
Dividend payout ratio (Note 4)	N/A	12.7%	21.8%	18.3%	18.8%

Notes:

1. Gross profit margin is calculated by dividing gross profit by revenue of the respective financial year/period.
2. Net profit margin is calculated by dividing profit attributable to equity holders of the Company by revenue of the respective financial year/period.
3. Net profit growth rate represents the percentage change of the profit attributable to equity holders of the Company for the relevant year/period compared to that of the previous year/period.
4. Dividend payout ratio is calculated by dividing dividend by net profit for the respective financial year/period.

As illustrated in the above table, the revenue of the Magic Group has increased from approximately HK\$957.3 million for the year ended 30 June 2011 to approximately HK\$1,690.5 million for the year ended 30 June 2013, representing cumulative annual growth rate (“CAGR”) of approximately 32.9%. According to the Annual Reports, the revenue growth is mainly attributable to sales volume increase owing to the rapid growth of the facial mask industry and the effective implementation of the Company’s development strategies. The revenue of the Magic Group increased by approximately 8.5% from approximately HK\$821.4 million for the six months ended 31 December 2012 to approximately HK\$891.1 million for the six months ended 31 December 2013.

Despite the slower growth of China's economy, the Magic Group still managed to achieve robust growth in sales. The market share of the Magic Group's MG brand in the PRC up to 31 December 2012 was approximately 26.4%, which continues to be the leading brand in China for the fourth consecutive year. This has proven its successful brand building and marketing strategies over the past years. The Magic Group had a total of 363 distributors and 13,852 terminal stores coverage as at 30 June 2013, representing a net increase of 3,668 new stores for the year. The Magic Group's distribution network covers personal healthcare product chain stores, hypermarkets and supermarket chain stores in the first- and second-tier cities and has been expanding to skincare specialty stores in the third- and fourth-tier cities. Furthermore, in light of the trend of fast growth of e-commerce, the Magic Group has stepped up to develop e-commerce business by acquiring Apex Rich Enterprises Limited, which specialises in e-commerce. Further, the growth in revenue was also attributable to the development of new products offerings. During the year ended 30 June 2013, the Magic Group has launched nine new products.

Gross profit margin for the three years ended 30 June 2013 maintained at approximately 76.9%, 76.6% and 76.1% respectively 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. Gross margin for the six months ended 31 December 2013 decreased to approximately 74.2%. Such decrease was mainly due to the consolidation of the results of Apex Rich Enterprises Limited and its subsidiaries (the "**Apex Group**") after completion of the Baili Acquisition on 29 July 2013, which has lower gross profit margin than the Original Magic Group.

It is also noted that the selling and distribution costs has increased from approximately HK\$492.5 million for the year ended 30 June 2011, representing approximately 51.4% of total revenue, to approximately HK\$934.0 million for the year ended 30 June 2013, representing approximately 55.2% of total revenue. We have discussed with the management of the Magic Group, and noted that such increase was mainly attributable to the increase in the number of distributors and terminal stores from 174 distributors and 6,264 terminal stores as at 30 June 2011 to 363 distributors and 13,852 terminal stores as at 30 June 2013. The selling and distribution costs also increased for the six months ended 31 December 2013 compared to the same period in 2012, mainly due to transaction costs incurred for the Baili Acquisition and the consolidation of the results of the Apex Group.

The administrative costs for the six months ended 31 December 2013 increased by approximately 79.3% compared to that for the same period in 2012 mainly due to the consolidation of the administrative expenses of the Apex Group, the increase in salary expenses of the Magic Group, the increase in social insurance and staff welfare due to the increase in the number of employees of the Magic Group and increase in legal and professional fee incurred for corporate activities.

The net profit attributable to the owners of the Company has increased from approximately HK\$160.5 million for the year ended 30 June 2011 to approximately HK\$207.1 million for the year ended 30 June 2013, representing CAGR of

approximately 13.6% for the three years ended 30 June 2013. As illustrated in the table above, the revenue growth rate and the net profit growth rate were approximately 41.0% and 25.0% for the year ended 30 June 2012 and approximately 25.3% and (0.7%) for the year ended 30 June 2013 respectively. The Magic Group recorded a decrease in net profit attributable to the owners of the Company of approximately 72.7% for the six months ended 31 December 2013 compared to the same period in 2012.

During the three years ended 30 June 2013, the Company paid dividends to the Shareholders of approximately HK\$30.1 million, approximately HK\$36.7 million and approximately HK\$43.4 million respectively. The dividend payout ratio of the Magic Group has increased from approximately 18.8% for the year ended 30 June 2011 to approximately 21.8% for the year ended 30 June 2013.

(ii) *Historical financial position of the Magic Group*

The following table summarises the audited financial position of the Magic Group as at 30 June 2011, 2012 and 2013 respectively as extracted from the Annual Reports and the unaudited financial position of the Magic Group as at 31 December 2013 as extracted from the Company's interim result announcement:

	As at 31 December 2013 HK\$'000 (Unaudited)	As at 30 June 2013 HK\$'000	As at 30 June 2012 HK\$'000	2011 HK\$'000
Non-current assets				
Property, plant and equipment	51,135	40,788	32,344	14,178
Prepaid land lease payments	68,285	63,670	61,564	—
Goodwill	464,546	14,549	14,549	15,772
Intangible assets	48,805	16,739	20,445	24,049
Deferred tax assets	2,804	432	415	1,283
Prepayments and deposits	4,157	318,481	2,467	41,723
Total non-current assets	639,732	454,659	131,784	97,005
Current assets				
Inventories	131,467	29,656	26,967	14,845
Trade receivables	364,258	419,387	250,497	181,248
Prepayment, deposits and other receivables	42,779	32,217	109,010	97,596
Tax recoverable	4,938	917	895	877
Cash and cash equivalents	891,619	965,492	1,104,202	975,404
	1,435,061	1,447,669	1,491,571	1,269,970
Assets of a subsidiary classified as held for sale	—	1,212	—	—
Total current assets	1,435,061	1,448,881	1,491,571	1,269,970
Current liabilities				
Trade payables	128,124	64,766	63,825	45,401
Other payables and accruals	134,206	68,092	37,797	34,311
Dividend payable	31,137	—	—	—
Tax payables	14,718	26,280	23,998	23,219
	308,185	159,138	125,620	102,931
Liabilities directly associated with a subsidiary classified as held for sale	—	3,035	—	—
Total current liabilities	308,185	162,173	125,620	102,931

	As at 31 December 2013 HK\$'000 (Unaudited)	2013 HK\$'000	As at 30 June 2012 HK\$'000	2011 HK\$'000
Total assets less current liabilities	1,766,608	1,741,367	1,497,735	1,264,044
Non-current liabilities				
Deferred income tax liabilities	<u>12,201</u>	<u>4,185</u>	<u>5,111</u>	<u>6012</u>
Net assets	1,754,407	1,737,182	1,492,624	1,258,032
Equity attributable to owners of the Company				
Issued capital	103,789	103,253	100,890	83,491
Reserves	<u>1,653,226</u>	<u>1,629,759</u>	<u>1,379,456</u>	<u>1,158,213</u>
	1,757,015	1,733,012	1,480,346	1,241,704
Non-controlling interest	<u>(2,608)</u>	<u>4,170</u>	<u>12,278</u>	<u>16,328</u>
Total equity	1,754,407	1,737,182	1,492,624	1,258,032
Current ratio	4.7	8.9	11.9	12.3
Inventories' turnover days (Note 1)	N/A	25.6	24.1	19.3
Creditors' turnover days (Note 2)	N/A	58.0	63.0	61.7

Notes:

1. Inventories' turnover days is calculated by the average inventories divided by the cost of inventories sold for the respective financial years and multiplied by 365 days.
2. Creditors' turnover days is calculated by the average trade payables divided by the cost of inventories sold for the respective financial year and multiplied by 365 days.

Non-current assets

As illustrated in the table above, the non-current assets of the Magic Group has increased from HK\$454.7 million as at 30 June 2013 to approximately HK\$639.7 million as at 31 December 2013. The non-current assets of the Magic Group as at 31 December 2013 mainly comprised goodwill of approximately HK\$464.5 million, prepaid land lease payments of approximately HK\$68.3 million and property, plant and equipment of approximately HK\$51.1 million. It is noted that goodwill increased from approximately HK\$14.5 million as at 30 June 2013 to approximately HK\$464.5 million as at 31 December 2013 mainly as a result of the Baili Acquisition. It is further noted that prepayments and

deposits has decreased from approximately HK\$318.5 million as at 30 June 2013 to approximately HK\$4.2 million as at 31 December 2013 mainly due to the completion of the Baili Acquisition on 29 July 2013.

Current assets

As illustrated in the table above, the current assets of the Magic Group decreased slightly from HK\$1,448.9 million as at 30 June 2013 to approximately HK\$1,435.1 million as at 31 December 2013. The current assets of the Magic Group as at 31 December 2013 mainly comprised cash and cash equivalents of approximately HK\$891.6 million and trade receivables of approximately HK\$364.3 million. The current ratio of the Magic Group has decreased from approximately 8.9 as at 30 June 2013 to approximately 4.7 as at 31 December 2013. It is noted that inventories has increased by approximately 343.3% from approximately HK\$29.7 million as at 30 June 2013 to approximately HK\$131.5 million as at 31 December 2013. Such increase was mainly due to the consolidation of the inventories of the Apex Group.

Liabilities

As illustrated in the table above, the total liabilities of the Magic Group has increased from HK\$166.4 million as at 30 June 2013 to approximately HK\$320.4 million as at 31 December 2013. The liabilities of the Magic Group as at 31 December 2013 mainly comprised other payables and accruals of approximately HK\$134.2 million, trade payables of approximately HK\$128.1 million and dividend payable of approximately HK\$31.1 million. It is noted that trade payables and other payables and accruals have increased by approximately 97.8% and 97.1% respective as at 31 December 2013 compared to 30 June 2013. We have discussed with the management of the Magic Group, and noted that such increases were mainly attributable to the consolidation of the financial positions of the Apex Group.

Net assets attributable to owners of the Company

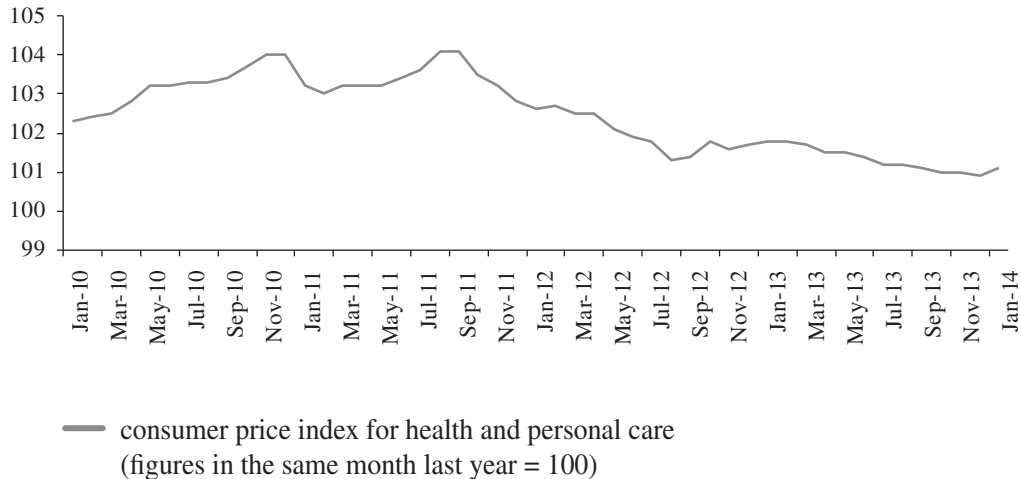
The net assets value attributable to the owners of the Company increased from approximately HK\$1,241.7 million as at 30 June 2011 to approximately HK\$1,757.0 million as at 31 December 2013, mainly attributed to the profit attributable to the owners of the Company accrued in the relevant years or period.

(iii) Prospects of the Magic Group

According to the annual report of the Company for the year ended 30 June 2013, the Company believes brand and distribution is the key to its success. As stated in the aforesaid annual report, according to a market research report issued by ACNielsen, the market share of the Company's MG brand in the PRC up to 31 December 2012 was approximately 26.4%, and was the leading brand in the PRC for the fourth consecutive year.

According to the National Bureau of Statistics in China, the consumer price index for health care and personal care in the PRC remained relatively stable during the period from January 2010 to January 2014. The index varied within approximately 3% during the aforesaid period. The following chart set forth the consumer price index for health care and personal care in the PRC from January 2010 to January 2014.

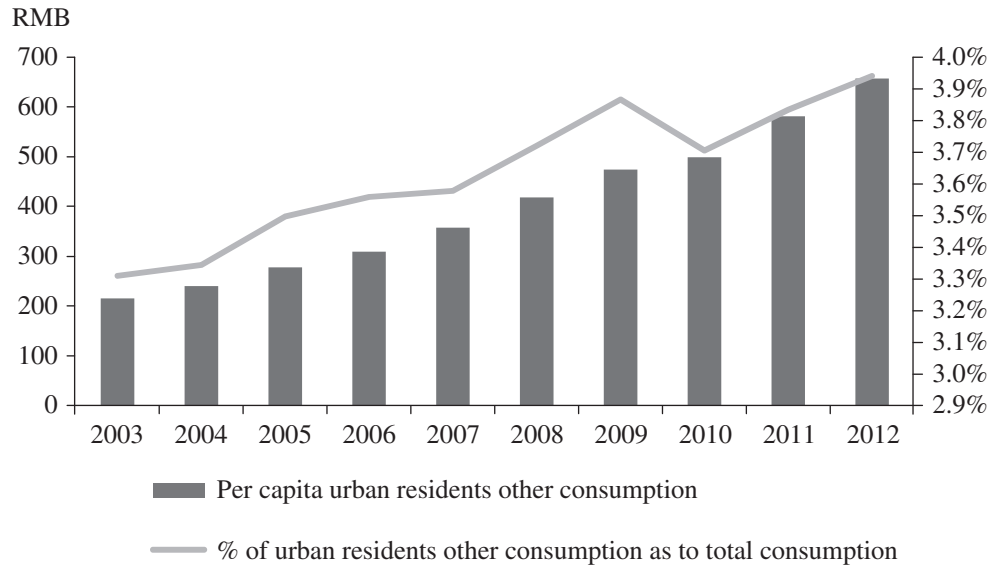
**Consumer price index for health and personal care in the PRC
from January 2010 to December 2014**



Source: National Bureau of Statistics in China

According to the China Statistical Yearbook 2012 released by the National Bureau of Statistics in China, the consumption of facial masks, cosmetics and skin care product was classified as other consumption. The per capita other consumption of the urban residents in the PRC increased from approximately RMB215.1 in 2003 to approximately RMB657.1 in 2012, representing a CAGR of approximately 13.2% over the same period. The following chart set forth the per capita urban residents other consumption and its contribution to the total consumption of the urban residents in the PRC from 2003 to 2012.

**The per capital urban resident other consumption and
its contribution to the total consumption of the
urban residents in the PRC from 2003 to 2012**



Source: National Bureau of Statistics in China

As illustrated in the charts above, the facial masks industry in the PRC has benefited from the increase in the per capita urban resident other consumption. The increase is generally in line with the increase in the total consumption of the urban residents. According to the National Bureau of Statistics in China, retail sales of cosmetics amounted to RMB162.5 billion in 2013, representing an increase of 13.3% compared to the previous year.

As disclosed in the annual report of the Company for the year ended 30 June 2013, for Chinese consumers, facial masks have shifted to fast moving consumer goods from high-end luxury goods, and 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 mask 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 RMB30 billion in the PRC.

The facial mask market is expected to continue to expand in scale, driven by increase in penetration rate and frequency of use. This is expected to entice more large and capable enterprises with strong brand image to shift their focus on the facial mask market, which in turn will increase competition. Notwithstanding the rapid growth of the facial mask industry, it is uncertain whether the facial masks industry can maintain its growth in the near future as the facial masks industry in the PRC, being a consumer product, depends on a number of factors including, among others, the macroeconomic conditions. Further, despite the leading market position of the Company in the facial mask market, it is uncertain whether the Company can maintain its market share as it depends on a number of factors including, among others, the successful implementation of marketing strategies and product competitiveness.

4. *Information on the Offeror and its intention regarding the future of the Magic Group*

As set out in Part VIII — Explanatory Memorandum of the Scheme Document, upon the Scheme becoming effective, all Shares will be cancelled and the share certificates for the Shares will thereafter cease to have effect as documents or evidence of title. The Company will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange to take effect immediately following the Effective Date.

The Offeror intends to continue, after the Scheme becomes effective, the existing business and operations of the Magic Group as an autonomous business unit of the Offeror. The Offeror expects to review the Company, its corporate structure, capitalisation, operations, assets, policies and employees to consider and determine what changes, if any, would be appropriate to best organise and optimise the activities of the Company. Subject to any changes arising from such review, the Offeror does not expect to introduce any major changes to the business or the continued employment of the employees of the Magic Group, nor does it have any plans to redeploy any fixed assets of the Company.

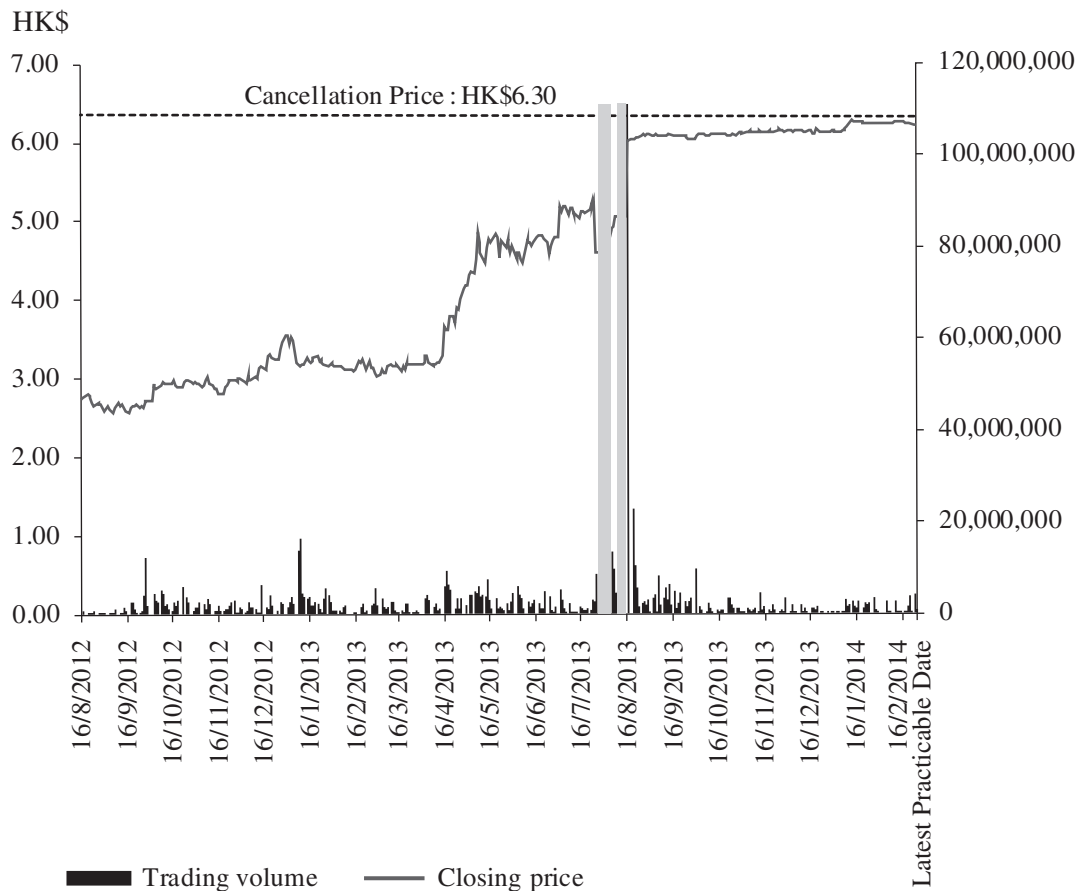
In addition, the Offeror has identified Mr. She as the key person to lead the Company after completion of the Scheme. The Offeror views Mr. She as having considerable expertise in the facial mask business in the PRC and values his long established relationships with suppliers, local authorities and employees of the Magic Group. The Service Agreement will serve to incentivise Mr. She to remain with the Company for a term of at least three years and the Remuneration Package will serve to motivate him to continue to contribute to the growth and development of the Magic Group upon implementation of the Scheme.

5. Share price and trading volume

(i) Share price performance of the Shares

Set out below is the chart showing the closing price and trading volume of the Shares as quoted on the Stock Exchange from 16 August 2012, being the date one year preceding the Announcement Date, up to and including the Latest Practicable Date (the “**Review Period**”):

**Share price and trading volume of the Shares during
the Review Period**



Source: Bloomberg

As shown in the chart above, the closing prices of the Shares were below the Cancellation Price at all times during the Review Period. From 16 August 2012 to the last trading day before the Announcement Date, being 9 August 2013 (both dates inclusive) (the “**Pre-Announcement Period**”), the highest and lowest closing prices of the Shares were HK\$5.25 on 25 July 2013 and HK\$2.58 on 6 and 17 September 2012 respectively.

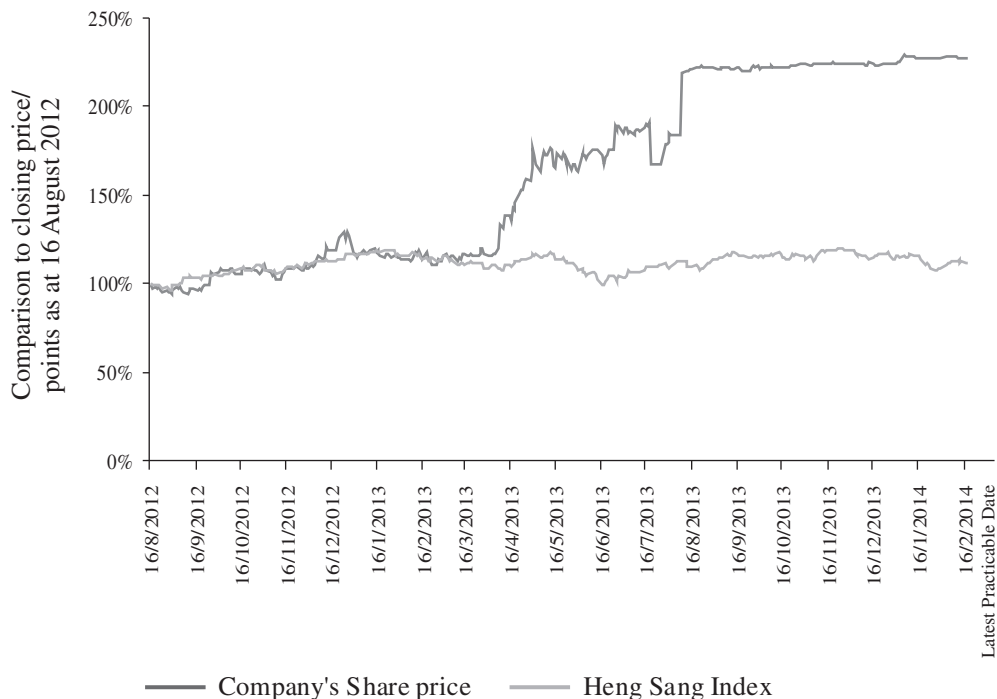
It should be noted that the Cancellation Price represents a considerable premium of approximately 77.0% over the average closing price of HK\$3.56 per Share during the Pre-Announcement Period, and also exceeds the highest closing price per Share during the same period.

On 12 August 2013, trading in the Shares was suspended pending the release of the Announcement. On 16 August 2013, being the first trading day of the Shares after publication of the Announcement, the closing price of the Shares surged to HK\$6.01. From 16 August 2013 to the Latest Practicable Date (both dates inclusive) (the “**Post-Announcement Period**”), the close prices of the Shares remained lower than the Cancellation Price. The highest and lowest closing prices of the Shares during the Post-Announcement Period were HK\$6.27 on 13 January 2014 and HK\$6.01 on 16 August 2013 respectively.

As at the Latest Practicable Date, the closing price of the Shares closed at HK\$6.22.

The closing price performance of the Shares was further analysed by the comparison with the stock market trend during the Review Period. The following chart shows the closing price performances of the Shares against the Hang Seng Index during the Review Period:

**Performance of the Shares against
Hang Seng Index during the Review Period**



Source: Bloomberg

As illustrated in the charts above, before 15 April 2013, the performance of the Shares has shown an increasing trend and generally in line with the performance of Hang Seng Index during the Pre-Announcement Period. From 16 April 2013 to 9 August 2013, being the Last Trading Day, the price of the Shares surged by approximately 38.0%. The directors of the Company advised that they are not aware of any reason for such price movement.

The Hang Seng Index remained steady and increased by approximately 9.2% as compared to the increase in the closing price of the Shares of approximately 84.3% during the Pre-Announcement Period. The Hang Seng Index decrease from 22,517.81 points as at 16 August 2013, being the first trading day of the Shares after publication of the Announcement, to 22,317.20 points as at the Latest Practicable Date during the Post-Announcement Period.

We believe that the surge in the closing price of the Shares during the Post-Announcement Period was mainly a result of market reaction after the release of the Announcement relating to the Proposal. We note that the Shares have been trading within the range of HK\$6.01 to HK\$6.27 from the Announcement Date to the Latest Practicable Date. The prevailing closing price of the Shares may not be sustainable if the Scheme fails and the market price of the Shares may revert to its historical trading range, which may be substantially below the prevailing market price or the Cancellation Price. In particular, we have reviewed the prices of the Shares since its listing in September 2010, which traded within the range of HK\$1.67 to HK\$6.27 per Share up to the Latest Practicable Date. Accordingly, the Cancellation Price represents a premium to the trading prices of the Shares since its listing in 2010.

Having considered the above analysis, we are of the opinion that the Scheme provides an opportunity to the Independent Shareholders to realise the Scheme Shares at a price which is significantly higher than the historical price of the Shares.

(ii) Trading volume

The following table sets out the trading volume of the Shares during the Review Period:

Month/period	Total trading volume for the month/period (Shares)	Average daily trading volume for the month/period (Shares) <i>(Note 1)</i>	Percentage of average daily trading volume to total issued Shares <i>(Note 2)</i>	Percentage of average daily trading volume to total number of Shares held by public Shareholders as at the Latest Practicable Date <i>(Note 3)</i>
2012				
August (From 16 August 2012)	4,872,500	406,042	0.04%	0.07%
September	35,250,400	1,762,520	0.17%	0.32%
October	57,938,100	2,896,905	0.29%	0.53%
November	34,922,200	1,587,373	0.16%	0.29%
December	37,837,500	1,991,447	0.20%	0.36%
2013				
January	94,109,400	4,277,700	0.42%	0.78%
February	28,213,400	1,659,612	0.16%	0.30%
March	29,596,500	1,479,825	0.15%	0.27%
April	62,162,100	3,108,105	0.30%	0.57%
May	72,680,800	3,460,990	0.34%	0.63%
June	48,860,100	2,571,584	0.25%	0.47%
July	37,816,400	1,990,337	0.19%	0.36%
August	216,128,100	13,508,006	1.30%	2.46%
September	76,599,100	3,829,955	0.37%	0.70%
October	28,020,800	1,334,324	0.13%	0.24%
November	23,302,400	1,109,638	0.11%	0.20%
December	14,888,400	744,420	0.07%	0.14%
2014				
January	31,016,339	1,476,969	0.14%	0.27%
February (up to the Latest Practicable Date)	21,388,149	1,336,759	0.13%	0.24%

Source: Bloomberg and website of the Stock Exchange

Notes:

1. Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days during the month/period which exclude any trading day on which trading of the Shares on the Stock Exchange was suspended for the whole trading day;

2. Based on the total issued Shares at the end of the respective month according to respective monthly return of the Company or as at the Latest Practicable Date (as the case may be); and
3. Based on 550,018,342 Shares held by public Shareholders as at the Latest Practicable Date.

As illustrated in the above table, the average daily trading volume during the Review Period ranged from approximately 406,042 Shares to approximately 13,508,000 Shares, representing approximately 0.04% to 1.30% of the total number of the Shares in issue for the respective month, and approximately 0.07% to 2.46% of the total number of Shares held by public Shareholders as at the Latest Practicable Date.

The high trading volume in August 2013 was mainly a result of market reaction after the release of the Announcement relating to the Proposal. It is noted that the trading volume on 16 August 2013, being the first trading day of Shares immediately after the release of the Announcement, was particularly large amounting to 111,162,900 Shares. During the period from 16 August 2013 to 31 August 2013, the total trading volume surged to 178,688,700 Shares with an average daily trading volume of approximately 16,244,427 Shares, representing approximately 1.57% of the total number of Shares in issue as at 31 August 2013. The total trading volume in September 2013 dropped to 76,599,100 Shares but was still considered relatively high as compared to the total trading volume recorded in those months prior to the publication of the Announcement. We consider that the relatively high level of trading volume during the Post-Announcement Period was stimulated by the publication of the Announcement in relation to the Proposal.

In view of the above, we consider that, save for August 2013, the overall liquidity of the Shares was relatively low in normal circumstances during the Review Period. As such, Scheme Shareholders may find it difficult to dispose of a large number of Shares in the open market without exerting a downward pressure on the price of the Shares. We consider that the Scheme represents a good opportunity for Independent Shareholders to realise their investment in the Shares at the Cancellation Price which carries a premium to trading prices of the Shares since its listing in 2010.

6. *Comparisons*

(i) *Peer comparison*

The Magic Group is principally engaged in manufacture, sale and marketing of facial masks, wholesaling and retailing of skincare, facial masks and other products on the Internet and in retail shops in China. In assessing the fairness and reasonableness of the Proposal, we have attempted to compare the pricing ratios represented by the Cancellation Price against the market valuation of other listed companies which are engaged in business similar to that of the Magic Group. Price to earnings ratio (the “**P/E ratio(s)**”) and price-to-net assets value ratio (“**P/NAV ratio(s)**”) have been used in the analysis. In general, in assessing whether a business

segment is principal to a company, we consider it is a justifiable basis to make reference to the revenue generated from a business segment which contributes more than half of the total revenue of a company. We have, based on the information available from the website of the Stock Exchange, identified the following three comparables (the “**Comparables**”), being companies listed on the Stock Exchange, which (i) are principally engaged in the manufacture, sale and marketing of skincare products and cosmetics; (ii) have revenue derived from the manufacture, sale and marketing of skincare products and cosmetics represent not less than 50% of the total revenue for their respective latest financial year; and (iii) have market capitalisation of more than HK\$500 million. We consider that the Comparables are fair and representative samples for comparison as the principal business of the Comparables is similar to the businesses of the Magic Group. In forming our opinion, we have also considered the results of the comparison together with the other factors stated in this letter as a whole. The list of the Comparables is exhaustive and their respective P/E ratios and P/NAV ratios are set out below.

Company (stock code)	Principal activities	Share price as at the Latest Practicable Date	Market capitalisation	P/NAV ratio (Note 1)	P/E ratio (Note 2)
		HK\$	HK\$' million		
L'Occitane International S.A. (973)	Design, manufacture and market a wide range of cosmetics and well-being products based on natural and organic ingredients.	17.48	25,817.3	3.54	19.89
Ming Fai International Holdings Limited (3828)	Supply and manufacture of quality amenity products and accessories to internationally recognised or branded operators, and distribution of cosmetics and fashion accessories.	0.80	558.1	0.43	7.42
Natural Beauty Bio-Technology Limited (157)	Manufacture and sale of skincare, beauty and aromatherapeutic products and provision of skin treatments, beauty and spa services and skincare consulting and beauty training.	0.43	860.9	1.10	7.22
Maximum				3.54	19.89
Minimum				0.43	7.22
Average				1.69	11.51
The Company	Manufacture, sale and marketing of facial masks and skincare products	6.30 (Note 3)	6,538.7	3.72 (Note 4)	27.63 (Note 5)

Source: Website of the Stock Exchange

Notes:

1. P/NAV ratio of the Comparables are calculated based on their respective closing prices as at the Latest Practicable Date and the net assets value attributable to the shareholders of the Comparables as extracted from their respective latest published balance sheets divided by the total number of issued shares as at the Latest Practicable Date.
2. P/E ratio of the Comparables are calculated based on their respective closing prices as at the Latest Practicable Date and the net profit attributable to the shareholders of the Comparables as extracted from their respective latest annual reports divided by the total number of issued shares as at the Latest Practicable Date.
3. This is the Cancellation Price.
4. Calculated based on the Cancellation Price and the net assets attributable to the shareholder of the Company at 31 December 2013 divided by the total number of issued Shares as at the Latest Practicable Date.
5. Calculated based on the Cancellation Price and the net profit attributable to the shareholder of the Company for the year ended 30 June 2013 divided by the total number of issued Shares as at the Latest Practicable Date.

As shown in the above table, the P/E ratios of the Comparables ranged from approximately 7.22 to 19.89 times, with an average of approximately 11.51 times. The P/NAV ratios of the Comparables ranged from approximately 0.43 to 3.54 times, with an average of approximately 1.69 times. The P/E ratio and P/NAV ratio of the Company as implied by the Cancellation Price of approximately 27.63 times and 3.72 times were the highest among the respective P/E ratio and P/NAV ratio of the Comparables, which suggest that, insofar as the P/E ratio and P/NAV ratio are concerned, the Cancellation Price appears attractive as compared to the share price of the Comparable relative to their respective earnings and net assets value, as such we consider the Cancellation Price to be fair and reasonable to the Independent Shareholders.

(ii) Privatisation precedents

As identified from the information publicly available on the Stock Exchange website, the table below sets out all the privatisation proposals that (i) involve companies listed on the Stock Exchange; (ii) were announced since 1 January 2012

and up to the Latest Practicable Date; and (iii) have been successfully completed (the “Privatisation Precedents”). The table illustrates the range of premiums/discounts to the then prevailing market prices prior to the announcement of the privatisation over the periods indicated.

Date of initial announcement	Company (stock code)	Principal business	P/NAV ratio (times)	Premium/(discount) of offer/cancellation price over/(to) the average share price prior to announcement of privatisation			
				Last trading day	Last 30 trading days	Last 90 trading days	Last 180 trading days
21 February 2012	Alibaba.com Limited (1688)	A global leader in e-commerce for small businesses	7.17	45.9%	58.8%	59.3%	42.0%
23 March 2012	Samling Global Limited (3938)	Sale of timber logs from concession and tree plantation areas, manufacturing and sale of plywood and veneer, the provision of upstream support, and manufacturing and sale of timber related products	0.70	102.7%	102.7%	80.5%	21.6%
17 January 2013	Trauson Holdings Company Limited (325)	Design, manufacture and sale of various trauma and spine orthopaedic implants and related surgical tools	4.53	45.3%	80.2%	95.0%	120.1%
31 January 2013	PCD Stores (Group) Ltd (331)	Operation and management of high-end department stores and outlet malls in the PRC, generally targeted at high-income earners.	1.64	10.1%	20.7%	45.5%	59.4%
Maximum			7.17	102.7%	102.7%	95.0%	120.1%
Minimum			0.70	10.1%	20.7%	45.5%	21.6%
Average			3.51	51.0%	65.6%	70.1%	60.8%
15 August 2013	The Company (as implied by the Cancellation Price)		3.72	24.8%	25.7%	42.3%	66.7%

Source: Website of the Stock Exchange

Price performance

As illustrated in the table above, the premiums represented by the offer/cancellation price over the average closing price for the Privatisation Precedents for (i) the trading day prior to announcement of privatisation ranged from approximately 10.1% to 102.7% with an average of approximately 51.0%; (ii) 30 trading days prior to announcement of privatisation ranged from approximately 20.7% to 102.7% with

an average of approximately 65.6%; (iii) 90 trading days prior to announcement of privatisation ranged from approximately 45.5% to 95.0% with an average of approximately 70.1%; and (iv) 180 trading days prior to announcement of privatisation ranged from approximately 21.6% to 120.1% with an average of approximately 60.8%. The premiums represented by the Cancellation Price were approximately 24.8%, 25.7%, 42.3% and 66.7% over the closing price of the Last Trading Day, and the average closing prices for the periods of 30, 90 and 180 trading days up to and including the Last Trading Days respectively. The premiums represented by the Cancellation Price is below the average of the Privatisation Precedents by approximately 26.2 percentage points over the closing price of the last trading day before the respective privatisation announcement, and lower than the average premiums for the periods of 30 days and 90 days up to and including the last trading day before the privatisation announcements of the Privatisation Precedents by approximately 39.9 percentage points and 27.8 percentage points respectively. However, the premiums represented by the Cancellation Price is above the average premiums for the periods of 180 days up to and including the last trading day before the respective privatisation announcement of the Privatisation Precedents by approximately 5.9 percentage points. The premium represented by the Cancellation Price over the closing price of the Shares on the Last Trading Day is below the average but within the range of the premiums of the offer/cancellation prices over the respective closing price of the last trading day before the relevant privatisation announcement in respect of the Privatisation Precedents. The premium represented by the Cancellation Price over the average closing price of the Shares is also within the range of the premiums over the average closing prices for the periods of 30 and 180 trading days up to and including the last trading days before the privatisation announcement for each of the Privatisation Precedents.

Price-to-net asset value

We have also compared the P/NAV ratio represented by the Cancellation Price under the Scheme to the corresponding ratios underlying each of the Privatisation Precedents. Based on the unaudited consolidated net asset value attributable to equity holders of the Company of approximately HK\$1,757.0 million as at 31 December 2013 and a total of 1,037,892,736 Shares in issue as at the Latest Practicable Date, the unaudited consolidated net asset value attributable to equity holders of the Company would be approximately HK\$1.69 per Share. The Cancellation Price represents a P/NAV ratio of approximately 3.72 times, which is within the range and higher than, and thus compares favourably to, the average P/NAV ratio, being approximately 3.51 times for the Privatisation Precedents.

Having considered that all the Privatisation Precedents were offers made to the shareholders for cash to exit their respective investments, we consider the Privatisation Precedents provide an appropriate reference to the Independent Shareholders as to the range of premium/discount of other proposed privatisation precedents over/to their respective net asset values and average share price prior to the privatisation announcement as represented by their respective offer/cancellation price during the selected period. It should be noted that the Privatisation Precedents

were conducted under various market conditions and the companies involved are engaged in a variety of industry sectors. Accordingly, the premiums of offer/cancellation price of the Privatisation Precedents may be affected by factors different from those applying to the Scheme. As such, we consider that the above comparison table can only provide a general reference of the offer prices of the privatisation proposals announced previously but should not be used in isolation in determining the fairness and reasonableness of the Cancellation Price.

As illustrated in the table above, the premium of the respective cancellation price of the Privatisation Precedents over their respective share price on the last trading day prior to the announcement of the privatisation proposal ranged from 10.1% to 102.7%, with an average of approximately 51.0%. We consider the premium offered by the Cancellation Price over the Share price on the last trading day before the Announcement and the average Share price in the last one and six months prior to the Announcement Date were comparable to other privatisation proposals.

7. *Other considerations*

(i) Lack of use of equity capital market

Although the Company has been listed on the Stock Exchange since September 2010, it has not utilised its listing status to raise any funds from the equity capital market in the past, whilst on the other hand, the Company has continued to be burdened with the costs and the incurring of other resources in association with maintaining its listing status. As such, we are of the view that the Proposal will relieve the Company from such costs burden of keeping its listing status.

(ii) Prospect of an alternative offer

We have confirmed with the Company that save for the Proposal, it has not received any competing offers subsequent to the Announcement Date and up to the Latest Practicable Date.

(iii) Consequence of the Scheme failing

The Board intends that the listing of the Shares on the Stock Exchange shall be maintained in the event that the Scheme is not approved or does not become effective. If the Scheme is not approved or the Proposal otherwise lapses, there are restrictions under the Takeovers Code on making subsequent offers, to the effect that neither the Offeror nor any person who acted in concert with it in the course of the Proposal (nor any person who is subsequently acting in concert with any of them) may within 12 months from the date on which the Proposal lapses announce an offer or possible offer for the Company, except with the consent of the Executive.

If the Scheme is not approved or the Proposal otherwise lapses, the Offeror would not be restricted under the Takeovers Code from disposing of all or part of its interests in the Company.

We note that the Shares have been trading within the range of HK\$6.01 to HK\$6.27 from the Announcement Date to the Latest Practicable Date. The prevailing share price and trading volume of the Shares may not be sustainable if the Scheme fails and the market price of the Shares may revert to its historical trading range, which may be below the Cancellation Price.

(iv) Uncertainty in the future performance of the Magic Group

The following table sets out the respective profitability and liquidity ratio and growth rates of the Magic Group as discussed in the paragraph headed “Financial performance of the Magic Group” above:

	For the six months ended	For the year ended 30 June		
	31 December 2013	2013	2012	2011
Profitability				
Gross profit margin	74.2%	76.1%	76.6%	76.9%
Net profit margin	3.1%	12.3%	15.2%	16.8%
Liquidity				
Current ratio	4.7	8.9	11.9	12.3
Inventories' turnover days	N/A	25.6	24.1	19.3
Growth rate				
Revenue growth rate	8.5%	25.3%	41.0%	51.7%
Net profit growth rate	(72.7%)	(0.7%)	25.0%	35.4%

As illustrated in the table above, it is noted that the Magic Group is less profitable in recent years which is demonstrated by the reduction in gross profit margin and net profit margin from approximately 76.9% and 16.8% for the year ended 30 June 2011 to approximately 74.2% and 3.1% for the six months ended 31 December 2013 respectively. The liquidity of the Magic Group as at 31 December 2013 worsens as compared to the previous years. The current ratio of the Magic Group has reduced from approximately 12.3 times as at 30 June 2011, to approximately 4.7 times as at 31 December 2013. On the other hand, the inventories' turnover days increased from approximately 19.3 days as at 30 June 2011 to approximately 25.6 days as at 30 June 2013.

In addition, it is noted that the revenue growth rate and net profit growth rate of the Magic Group decreased from approximately 51.7% and 35.4% for the year ended 30 June 2011 to approximately 25.3% and (0.7%) for the year ended 30 June 2013 respectively. The Magic Group recorded revenue growth of approximately 8.5% while net profit decreased by approximately 72.7% for the six months ended 31 December 2013 compared to the same period in 2012. As illustrated in the table

above, despite the continuous growth in the revenue of the Magic Group in recent years, it is uncertain whether the Magic Group can maintain its growth as evidenced by the deteriorating profitability and diminishing growth rate.

B. The Service Agreement and the Remuneration Package

1. Background to and reasons for the entering into of the Service Agreement

On 4 February 2014, the Employer, being a wholly-owned subsidiary of the Company, and Mr. She entered into the Service Agreement, pursuant to which, subject to the Scheme becoming effective, Mr. She will serve as chief executive officer of the Magic Group and director of Magic Holdings Group Limited, a wholly-owned subsidiary of the Company and work with the Offeror to further build the MG brand of the Magic Group for a term of three full calendar years commencing on the Effective Date (the “**Term**”).

As disclosed in Part IV — Letter from the Board of the Scheme Document, the Offeror has identified Mr. She as the key person to lead the Company after completion of the Scheme. The Offeror views Mr. She as having considerable expertise in the facial market business in the PRC and values his long established relationships with suppliers, local authorities and employees of the Magic Group. Mr. She is a co-founder of the Magic Group. He is currently the general manager and an executive director of the Company. We noted from the prospectus of the Company dated 10 September 2010 that Mr. She played a vital role in the founding of the Magic Group and has over 10 years market and corporate management experience and possesses a strong market sense, strategic sight and innovative mind. As advised by the management of the Group, prior to founding the Group, Mr. She had worked in a company which was principally engaged in the sale of healthcare and beauty products in the PRC and later also worked as senior management of a company which was principally engaged in facial masks business in the PRC.

Mr. She is responsible for overseeing the operations of the business of the Magic Group. We consider it is in the interest of the Company to retain the key executive of the Magic Group following the completion of the Scheme in order to ensure the smooth transition of the management and operation of the Magic Group. We understand from the management of the Magic Group that Mr. She, being the general manager of the Magic Group, is most familiar with the overall objective and development strategy as well as the day-to-day operation of the Magic Group among the senior management of the Magic Group. Given his past contribution and expertise in the facial mask business, knowledge of, and insights into, the PRC skincare market, as well as through his long-established relationships with suppliers, regulators, local authorities, management and employees of the Magic Group, we consider it is justifiable to incentivise Mr. She to remain involved in the management of the business of the Magic Group. Accordingly, we consider it is reasonable for the Offeror to identify Mr. She as the key person to lead the Company after completion of the Scheme.

The Service Agreement will serve to incentivise Mr. She to remain with the Company for a term of at least three years and the Remuneration Package will serve to motivate him to continue to contribute to the growth and development of the Magic Group upon implementation of the Scheme. As detailed in section headed “Key terms of the

Service Agreement” below, the Remuneration Package contains: (i) a fixed component being the Base Salary; (ii) a variable component, being the Regular Bonus, the Annual Bonus and the Additional Bonus that aligns the size of Mr. She’s Remuneration Package with the performance of the Group; and (iii) an incentive component, being the Additional Bonus and the Retention Bonus that incentivise Mr. She to remain with the Magic Group for the entire Retention Term. Taking into account the experience of Mr. She in managing and operating the Magic Group, we consider that the entering into of the Service Agreement allows the Magic Group to ensure management continuity during the Term.

The Service Agreement is conditional upon the Scheme becoming effective. Conditions to the implementation of the Proposal and the Scheme are set out in the section headed “3. Conditions of the Proposal and the Scheme” in Part VIII — Explanatory Memorandum of the Scheme Document.

2. Key terms of the Service Agreement

(i) Scope of service

Pursuant to the Service Agreement, Mr. She will be the chief executive officer of the Magic Group and will be in charge of the management and operations of the Magic Group which will be operated as an independent business unit in the PRC. Strategic decisions will be formulated in the context of a three-year business plan to be approved by the Board. Mr. She will no longer be a member of the Board after the implementation of the Scheme. Mr. She will be responsible for, among other things, formulating and implementing the Magic Group’s development strategy (such as product development and product launching, distribution, commercial and marketing) and annual budget, appointing certain management personnel and formulating incentive plans in accordance with L’Oréal China’s internal policies. Mr. She is required to take all reasonable necessary steps within his power to promote the interests of the Magic Group, and is required to devote the whole of his working time to his duties and responsibilities.

The Company confirms that Mr. She’s executive and management duties and responsibilities as a chief executive officer of the Magic Group under the Service Agreement is not less than his current duties and responsibilities in the capacity of the general manager of the Magic Group. The Company further confirms that Mr. She will work full-time and the estimated time to be devoted by Mr. She in the Magic Group’s business pursuant to the Service Agreement is expected to be not less than the estimated time that he has been devoting currently.

(ii) Term

The term of the Service Agreement shall commence on the Effective Date and end on 31 December of the third full calendar year, unless terminated earlier in accordance with the terms thereof.

(iii) The Remuneration Package

Pursuant to the Service Agreement, Mr. She is entitled to the Remuneration Package which comprises the Base Salary, the Regular Bonus, the Retention Bonus, the Annual Bonus and the Additional Bonus. The detail terms of the Remuneration Package are set out in the section headed “Service Agreement and Remuneration Package” in Part IV — Letter from the Board of the Scheme Document.

In assessing the reasonableness of the Remuneration Package, we have discussed with the management of the Company and were advised that the following factors have been taken into consideration by the Offeror when determining the structure and amount of the Remuneration Package:

- the Remuneration Package needs to be of sufficient size to ensure that Mr. She will be adequately compensated for the time and effort that he is being required to commit to the Company’s business so that he has the incentive to stay with the Company for the entire Term;
- the Remuneration Package should be sufficiently attractive and be greater than that currently enjoyed by Mr. She in order to entice Mr. She into committing to devote his full efforts to promote the business interests and welfare of the Magic Group despite the loss of considerable amount of autonomy in running the Magic Group after completion of the Scheme as he will be subject to annual budgets and business plans approved by the Board and be required to report to the Offeror;
- Mr. She will cease to be interested in any Shares upon the Scheme becoming effective. Further, the Offeror has no intention of allowing Mr. She to participate in the equity of the Company after completion of the Scheme. Therefore, the structure of the Remuneration Package has to provide sufficient opportunity for Mr. She to benefit from the future growth of the Magic Group; and
- the bulk of the Remuneration Package shall be linked to the performance of the Magic Group after completion of the Scheme, such that if the Magic Group’s performance targets are not met, the compensation received by Mr. She under the Remuneration Package will be greatly reduced.

The abovementioned factors are further analysed as follows:

- Mr. She will be entitled to a Base Salary of RMB3,000,000 per annum and a Regular Bonus of RMB900,000 per annum, that total to RMB3,900,000 (equivalent to approximately HK\$4.9 million) per annum. The Regular Bonus will be subject to Mr. She meeting the performance targets set out in the annual budget of the Magic Group, which is subject to the Board’s approval, for consolidated net sales, earnings before interest and tax and market share of the Magic Group and in accordance with the policies in place from time to time of L’Oréal China which are of general application

to employees of a similar level of seniority as Mr. She. Mr. She has no rights under the Service Agreement to determine the annual budget of the Magic Group.

- The Retention Bonus of HK\$9,000,000 (together with interest thereon) is a one-off retention bonus payable to Mr. She at the end of the Retention Term to incentivise him to commit himself for the entire duration. If Mr. She resigns as chief executive officer of the Magic Group before the third anniversary of the Effective Date without the Employer's written consent, he will forfeit the entirety of the Retention Bonus, together with interest earned on it.
- In aggregate, Mr. She will be entitled to approximately HK\$7.9 million per annum under the Base Salary, the Regular Bonus and the Retention Bonus. We have reviewed the annual reports of the Company for the three years ended 30 June 2013 and we note that Mr. She received total emoluments (including salaries, bonuses, allowances and benefits, and equity-settled share awards) amounting to approximately HK\$3.4 million, HK\$11.5 million and HK\$8.1 million respectively for the three years ended 30 June 2013, representing an average of HK\$7.7 million per annum. Hence, the total annual remuneration receivable by Mr. She under the Base Salary, the Regular Bonus and the Retention Bonus is approximately the same level as the average annual emoluments that Mr. She received for the three years ended 30 June 2013.
- The Base Salary, the Regular Bonus and the Retention Bonus are expenses of the Magic Group and are taken into account when determining the Magic EBIT for the purpose of the Annual Bonus and the Additional Bonus.
- The Annual Bonus equals to 2.5% of the annual increase in the Turnover for each Annual Bonus Year and the Additional Bonus equals to 2.5% of the aggregate increase in the Turnover over the Additional Bonus Years. Mr. She will dispose of all his interest in the Shares pursuant to or in connection with the Scheme and will, upon the Scheme becoming effective, cease to be interested in any Shares. Accordingly, Mr. She will no longer be able to benefit from possible price appreciation in the Shares if the Magic Group continues to be a success. As such, the Annual Bonus and the Additional Bonus link the Remuneration Package with the future performance of the Magic Group, allowing Mr. She the opportunity to benefit from the future growth of the Magic Group.
- Since the Annual Bonus and the Additional Bonus are calculated based on future potential increases in Turnover, we cannot estimate the amount of Annual Bonus and Additional Bonus that Mr. She will receive. Notwithstanding, for illustration purpose, based on the turnover of the Magic Group for the three years ended 30 June 2013, Mr. She would have

received approximately HK\$8.2 million, HK\$9.8 million and HK\$8.5 million of Annual Bonus calculated as 2.5% of the annual increase in turnover of the Magic Group for each of the three years ended 30 June 2013 and approximately HK\$26.5 million of Additional Bonus calculated as 2.5% of the aggregate increase in turnover of the Magic Group over the three years ended 30 June 2013.

- We note that the Company has paid cash dividends of HK\$0.036, HK\$0.036 and HK\$0.042 per Share for the three years ended 30 June 2013 respectively. Based on the 122,162,633 Shares controlled by Mr. She as at the Latest Practicable Date, Mr. She would have received cash dividends of approximately HK\$4.4 million, HK\$4.4 million and HK\$5.1 million for the three years ended 30 June 2013 respectively. Although the hypothetical amounts of Annual Bonus and Additional Bonus are relatively higher than the estimated amount of cash dividends Mr. She would have received for the three years ended 30 June 2013 as discussed above, given Mr. She will no longer be able to receive any possible distribution by the Company and benefit from potential increase in the Share price after completion of the Scheme, we consider it is reasonable to offer higher bonuses to Mr. She to ensure that he is adequately incentivised to commit to the business interests and welfare of the Magic Group throughout the Term. As a reference, the price of the Shares increased by approximately HK\$2.31 per Share during the Pre-Announcement Period. Based on the 122,162,633 Shares controlled by Mr. She as at the Latest Practicable Date, the market value of Mr. She's interest in the Shares would have increased by approximately HK\$282.2 million. Mr. She will not be able to enjoy such increase in the market value of the Shares after completion of the Scheme. Hence, the Remuneration Package, especially the variable components, compensates Mr. She for the loss of opportunity to participate in the equity of the Company after completion of the Scheme and ensures that he is adequately incentivised to commit to the business interests and welfare of the Magic Group throughout the Term.
- The Annual Bonus and the Additional Bonus are subject to certain profitability parameters being met, such as to prevent any increase in turnover of the Company at the expense of its profitability. The Annual Bonus is subject to the Original Magic Group attaining the Minimum Ratio for the relevant Annual Bonus Year and the Baili EBIT being positive for the relevant Annual Bonus Year. If the Baili EBIT is negative for the relevant Annual Bonus Year, the Annual Bonus for that Annual Bonus Year shall be reduced by 20%, save that any amount equal to such reduction shall be payable to Mr. She if the aggregate three-year Baili EBIT accumulated over the three Annual Bonus Years is positive. Similarly, the Additional Bonus is subject to the Original Magic Group attaining the Minimum Ratio for all Additional Bonus Years. Otherwise, the Additional Bonus will be reduced by one-third for each Additional Bonus Year that the Magic Group is not able to attain the Minimum Ratio.

The Additional Bonus is also subject to the Baili EBIT accumulated over the Additional Bonus Years being positive, otherwise, the Additional Bonus will be reduced by 20%. If there is no increase in the Turnover in any Annual Bonus Year, no Annual Bonus shall be payable in respect of that Annual Bonus Year. If there has been no increase in the Turnover over the Additional Bonus Years, no Additional Bonus shall be payable. Therefore, if the aforesaid performance targets are not attained, the amounts of Annual Bonus and Additional Bonus receivable by Mr. She will be greatly reduced or even none.

- The Annual Bonus is conditional upon Mr. She being the chief executive officer of the Magic Group throughout that relevant Annual Bonus Year and remaining so on 31 December of that relevant year. No Annual Bonus is payable to Mr. She if he resigns from the Employer without the Employer's consent during any relevant Annual Bonus Year. In the event that the employment of Mr. She is terminated by mutual agreement between the two parties prior to 31 December of any Annual Bonus Year, Mr. She shall be entitled to 2.5% of the increase in the Turnover for the period during which Mr. She is employed by the Employer as compared to the same period of the preceding calendar year provided that the Original Magic Group attains the Minimum Ratio for that relevant period and the Baili EBIT is positive for that relevant period. Similarly, Mr. She must remain as the chief executive officer of the Magic Group throughout the Additional Bonus Years and remains so on 31 December 2016 in order to receive the Additional Bonus. Therefore, if Mr. She does not stay with the Magic Group throughout the relevant bonus years, the amounts of Annual Bonus and Additional Bonus receivable by Mr. She will be greatly reduced or even none.
- As an indication of Mr. She's commitment to remain as the chief executive officer of the Magic Group after completion of the Proposal, Mr. She will permit 20% of the consideration payable to him or SPVCo, as applicable, for the Shares held by him or SPVCo, as applicable, pursuant to the Scheme, to be placed into an escrow account for the Retention Term. If Mr. She resigns as chief executive officer of the Magic Group prior to the third anniversary of the Effective Date without the Employer's written consent, the Retention Amount, together with interest earned on it, will be released promptly from escrow to the Offeror. Again, the Retention Arrangement entices Mr. She into staying with the Magic Group during the Retention Term and puts Mr. She in a less favourable position than other Shareholders.

Having considered the above, in particular, that (i) a significant portion of the Remuneration Package is linked to the performance of the Magic Group during the Term such that if the Magic Group's performance targets are not met, the compensation received by Mr. She under the Remuneration Package will be greatly reduced; (ii) a bulk of the Remuneration Package is payable only if Mr. She stays

with the Magic Group throughout the Term; (iii) the total annual remuneration receivable by Mr. She under the Base Salary, the Regular Bonus and the Retention Bonus is approximately the same level as the average annual emoluments that Mr. She received for the three years ended 30 June 2013; and (iv) the Annual Bonus and the Additional Bonus compensate Mr. She for the loss of opportunity to participate in the equity of the Company after completion of the Scheme, ensure that he is adequately incentivised to commit to the business interests and welfare of the Magic Group and allow Mr. She the opportunity to benefit from the future growth of the Magic Group, we are of the opinion that the terms of the Service Agreement and the Remuneration Package are fair and reasonable as far as the Company and the Independent Shareholders are concerned.

3. *Other consideration*

The approval by the Independent Shareholders on the terms of the Remuneration Package is one of the conditions precedent of the Proposal and the Scheme, therefore it is part and parcel of the Proposal and the Scheme if the Independent Shareholders are to vote in favour of the Scheme. The purpose of the Service Agreement and the Remuneration Package is to retain and incentivise Mr. She to remain involved in the management of the business and to continue to contribute to the businesses of the Magic Group. The contribution from Mr. She, among others, the extensive experience, business connections and expertise of Mr. She as discussed in the section headed “Background to and reasons for the entering into of the Service Agreement” above are important factors contributing to the success of the Magic Group. As such, the Service Agreement and the Remuneration Package have been taken into account in the terms of the Proposal and the Independent Shareholders would be able to enjoy the benefits under the Scheme which may otherwise be unavailable without the Service Agreement through which the Offeror would be able to secure the continuous contributions from Mr. She following the privatisation of the Company.

4. *Discussion*

Having considered the above, we are of the view that the entering into of the Service Agreement is in the interest of the Company and the Shareholders as a whole and the terms of the Service Agreement (including the Remuneration Package) are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

CONCLUSION AND RECOMMENDATION

In arriving at our recommendation in respect of the Proposal, the Scheme, the Service Agreement and the Remuneration Package, we have considered the principal factors and reasons as discussed above and as summarised below:

- the Cancellation Price is significantly above the historical price of the Shares since listing in 2010 and represent a premium over the unaudited net asset attributable to the Shareholders as at 31 December 2013;

- Scheme Shareholders may find it difficult to dispose of a large number of Shares in the open market without exerting a downward pressure on the price of the Shares;
- the prevailing price and trading volume of the Shares may not be sustainable if the Scheme fails and the market price of the Shares may revert to its historical trading range, which may be below the Cancellation Price;
- the P/E ratio and P/NAV ratio of the Company as implied by the Cancellation Price were the highest among the respective P/E ratios and P/NAV ratios of the Comparables;
- save for the Proposal, the Company has not received any competing offers concerning the Company subsequent to the Announcement Date and up to the Latest Practicable Date; and
- despite the continuous growth in the revenue and net profit of the Magic Group in recent years, we are uncertain whether the financial performance of the Magic Group can maintain its growth as evidenced by the deteriorating profitability and diminishing growth rate.

Based on the above, in conclusion, we consider that the terms of the Proposal and the Scheme are fair and reasonable so far as the Company and the Independent Shareholders are concerned and the Scheme provides the Scheme Shareholders with an opportunity to realise their investment in the Shares in cash. Taking into account (i) the Scheme Shareholders will not be able to enjoy the benefits under the Proposal unless the Remuneration Package is approved at the EGM, and (ii) the terms of the Service Agreement and the Remuneration Package are fair and reasonable as discussed in the section headed “The Service Agreement and the Remuneration Package” above, we advise the Independent Board Committees to recommend:

(a) at the Court Meeting:

- (i) the Independent Shareholders to vote in favour of the resolutions to approve the Scheme;

(b) at the EGM:

- (i) the Shareholders to vote in favour of:

- (1) the special resolution to approve and give effect to the reduction of the issued share capital of the Company by cancelling and extinguishing all the Shares as a result of the Scheme; and
- (2) the ordinary resolution to immediately restore the issued share capital of the Company to the same amount as immediately prior to the cancellation of the Shares by paying up in full at par such number of new Shares as is equal to the number of Shares cancelled as a result of the Scheme, credited as fully paid, for issuance to the Offeror; and

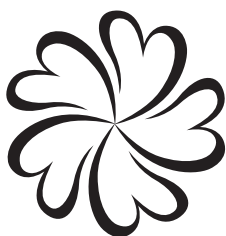
- (ii) the Independent Shareholder to vote in favour of the ordinary resolution to approve the terms of the Service Agreement, including the Remuneration Package.

Nevertheless, Independent Shareholders should note that the price of the Shares has substantially increased following the publication of the Announcement. As analysed in detail under the paragraph headed “Share price and trading volume” above, we believe that such surge in the closing price of the Share during the Post-Announcement Period was mainly as a result of market reaction after the release of the Announcement relating to the Proposal. The prevailing closing price of the Shares may not be sustainable if the Scheme fails and the market price of the Shares may revert to its historical trading range, which may be substantially below the Cancellation Price.

Therefore, Independent Shareholders who would like to realise part or all of their investments in the Company are reminded to carefully and closely monitor the market price of the Shares before the Effective Date and, instead of accepting the Proposal, consider selling their Shares in the open market if the net proceeds of such sale after deducting all transaction costs exceed the net amount to be received under the Proposal. For those Independent Shareholders who may not be able to realise a higher return from selling their Shares in the open market, the Independent Shareholders are recommended to accept the Proposal which provides a reasonable alternative exit to realise their investment in the Shares.

Independent Shareholders should read carefully the procedures for accepting the Proposal detailed in Part II — Actions to be taken of the Scheme Document.

Yours faithfully
For and on behalf of
Quam Capital Limited
Gary Mui
Managing Director



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)***Members of the Listing Rules Independent Board Committee:**Independent non-executive Directors:*YAN Kam Tong
DONG Yin Mao
YANG Rude*Registered office:*Cricket Square
Hutchins Drive
George Town
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

28 February 2014

To: The Shareholders

Dear Sir or Madam,

**DIRECTOR'S SERVICE AGREEMENT SUBJECT TO INDEPENDENT
SHAREHOLDERS' APPROVAL UNDER RULE 13.68 OF THE LISTING RULES**

We have been appointed by the Board as the Listing Rules Independent Board Committee to give a recommendation to the Independent Shareholders in respect of the Service Agreement, details of which are set out in Part IV — Letter from the Board and Part VIII — Explanatory Memorandum of this Scheme Document. Terms defined in the Scheme Document shall have the same meanings in this letter unless the context otherwise requires.

Quam Capital Limited, the Independent Financial Adviser, has been appointed by the Board with our approval to advise us in connection with the Service Agreement.

The Listing Rules Independent Board Committee, having considered the qualification and experience of Mr. She, his duties and responsibilities with the Magic Group and terms of the Service Agreement, and having taken into account the opinion of the Independent Financial Adviser, in particular the factors, reasons and recommendations set out in its letter in Part VI of this Scheme Document considers that the terms of the Service Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly,

the Listing Rules Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution to approve the terms of the Service Agreement at the EGM.

The Listing Rules Independent Board Committee draws the attention of the Independent Shareholders to (i) the letter from the Board set out in Part IV of the Scheme Document; (ii) the letter from Quam Capital Limited, the Independent Financial Adviser, which sets out the factors and reasons taken into account in arising at its recommendation to the Listing Rules Independent Board Committee, set out in Part VI of the Scheme Document; and (iii) the Explanatory Memorandum set out in Part VIII of the Scheme Document.

Yours faithfully

Yan Kam Tong
*Independent non-executive
director of the Company*

Dong Yin Mao
*Independent non-executive
director of the Company*

Yang Rude
*Independent non-executive
director of the Company*

Listing Rules Independent Board Committee

This Explanatory Memorandum constitutes the memorandum required under Order 102, rule 20(4)(e) of the Rules of the Grand Court of the Cayman Islands 1995 (revised).

**SCHEME OF ARRANGEMENT
TO CANCEL ALL THE SHARES
IN CONSIDERATION OF THE OFFEROR AGREEING TO PAY
THE CANCELLATION PRICE FOR EACH SHARE**

1 INTRODUCTION

On 15 August 2013, the Offeror and the Company jointly announced that on 12 August 2013, the Offeror had requested the Board to put forward the Proposal to the Shareholders regarding the acquisition of all the Shares of the Company by way of the Scheme.

The Scheme involves the cancellation of all the Shares in exchange for HK\$6.30 in cash for each Share, and the subsequent issue of new Shares to the Offeror, as a result of which it is intended that the entire issued share capital of the Company will be held by the Offeror.

The purpose of this Explanatory Memorandum is to explain the terms and effects of the Proposal, which will be implemented by the Scheme and to provide the Shareholders with other relevant information in relation to the Scheme, in particular, to provide the intentions of the Offeror with regard to the Company and the shareholding structure of the Company before and after the Scheme.

The particular attention of the Shareholders is drawn to the following sections of this Scheme Document: (a) a letter from the Board set out in Part IV of this Scheme Document; (b) a letter from the Independent Board Committee set out in Part V of this Scheme Document; (c) a letter from Quam Capital Limited, the Independent Financial Adviser, set out in Part VI of this Scheme Document; (d) a letter from the Listing Rules Independent Board Committee set out in Part VII of this Scheme Document; and (e) the terms of the Scheme set out in Appendix III to this Scheme Document.

2 TERMS OF THE PROPOSAL

The Proposal is to be implemented by way of a scheme of arrangement under Section 86 of the Companies Law.

Under the Scheme, the Shares will be cancelled and, in consideration thereof, each Shareholder whose name appears in the register of members of the Company as at the Record Date will be entitled to receive HK\$6.30 in cash for each Share.

As at the Latest Practicable Date, the authorised share capital of the Company was HK\$200,000,000 divided into 2,000,000,000 Shares, and the issued share capital of the Company was HK\$103,789,273.6 divided into 1,037,892,736 Shares. All of the Shares are fully paid and rank pari passu in all respects as regards to rights to capital, dividends and voting. On the basis of the Cancellation Price of HK\$6.30 per Share and 1,037,892,736 Shares in issue as at the Latest Practicable Date, the Shares are in aggregate valued at approximately HK\$6,538.72 million.

As at the Latest Practicable Date, there were 15,442,669 Shares held by the Share Award Plan Trustee under the Share Award Plan, of which 11,833,490 were Awarded Shares and 1,604,684 Awarded Shares were granted to Mr. Tang Siu Kun Stephen, 2,076,650 Awarded Shares were granted to Mr. She, 639,776 Awarded Shares were granted to Mr. Luo Yao Wen, each an executive director of the Company, 335,620 Awarded Shares were granted to the spouse of Mr. She, 52,440 Awarded Shares were granted to a sister of Mr. She and 377,572 Awarded Shares were granted to the spouse of Mr. Luo Yao Wen. The remaining 6,746,748 Awarded Shares of the 11,833,490 Awarded Shares were granted to other members of senior management and employees of the Magic Group. The Share Award Plan Trustee also held 3,609,179 Shares (i.e. the Other Distributions) received by it as a result of a scrip dividend scheme and bonus issue by the Company in December 2010 and December 2011 respectively. These 3,609,179 Shares were held by the Share Award Plan Trustee for and on behalf of the respective grantees until the relevant vesting dates, among which 509,890 Shares were held on behalf of Mr. Tang Siu Kun Stephen, 659,859 Shares were held on behalf of Mr. She, 203,288 Shares were held on behalf of Mr. Luo Yao Wen, each an executive director of the Company, 106,644 Shares were held on behalf of the spouse of Mr. She, 16,663 Shares were held on behalf of a sister of Mr. She and 119,973 Shares were held on behalf of the spouse of Mr. Luo Yao Wen. The remaining 1,992,862 Shares of the 3,609,179 Shares were held on behalf of other members of senior management and employees of the Magic Group. All of the above 15,442,669 Shares were held by the Share Award Plan Trustee for and on behalf of the respective grantees until the relevant vesting dates.

Since the last financial year ended 30 June 2013, 5,360,000 Shares had been issued by the Company. As at the Latest Practicable Date, there are no outstanding options, warrants, derivatives or other securities issued by the Company that carry a right to subscribe for or which are convertible into Shares.

Under the Scheme, the share capital of the Company will, on the Effective Date, 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 as is equal to the number of Shares cancelled. The reserve created in the Company's books of account as a result of the capital reduction will be applied in paying up in full at par the new Shares so issued, credited as fully paid, to the Offeror.

After the Scheme becomes effective, the listing of the Shares on the Stock Exchange will be withdrawn and the entire issued share capital of the Company will be held by the Offeror. The Proposal is conditional upon the fulfilment or waiver, as applicable, of the Conditions as described in the section headed "3. Conditions of the Proposal and the Scheme" below. All the Conditions will have to be fulfilled or waived, as applicable, on or before the Conditions Long Stop Date (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the Grand Court may direct or in accordance with the Takeovers Code), otherwise the Proposal will lapse. Further announcements on any changes regarding the timetable of the Scheme will be made as and when necessary.

If the Proposal does not become unconditional, the Company has no intention to seek the immediate withdrawal of the listing of the Shares on the Stock Exchange.

If the Scheme becomes effective on Monday, 7 April 2014, payments under the Proposal are expected to be despatched to the Scheme Shareholders by ordinary mail at their own risk on or before Wednesday, 16 April 2014.

Settlement of the Cancellation Price to which the Shareholders whose names appear in the register of members of the Company as at the Record Date will be implemented in full in accordance with the terms of the Proposal without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against any such Shareholder.

3 CONDITIONS OF THE PROPOSAL AND THE SCHEME

The Scheme will become effective and binding on the Company and all Shareholders, subject to the fulfilment or waiver (as applicable) of the following conditions:

- (a) the approval of the Scheme (by way of poll) by a majority in number of the Shareholders representing not less than 75% in value of the Shares held by the Shareholders present and voting either in person or by proxy at the Court Meeting, provided that:
 - (i) the Scheme is approved (by way of poll) by Independent Shareholders holding at least 75% of the votes attaching to the Shares held by Independent Shareholders that are voted either in person or by proxy at the Court Meeting; and
 - (ii) the number of votes cast (by way of poll) by Independent Shareholders present and voting either in person or by proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Shares held by all the Independent Shareholders;
- (b) (i) the passing of a special resolution by a majority of not less than three-fourths of the votes cast by the Shareholders present and voting in person or by proxy at an extraordinary general meeting of the Company to approve and give effect to the reduction of the share capital of the Company by cancelling and extinguishing the Shares, and (ii) the passing of an ordinary resolution by the Shareholders at an extraordinary general meeting of the Company to immediately thereafter increase the issued share capital of the Company to the amount prior to the cancellation of the Shares and apply the reserve created as a result of the aforesaid cancellation of the Shares to pay up in full at par such number of new Shares as is equal to the number of Shares cancelled as a result of the Scheme, credited as fully paid, for issuance to the Offeror;
- (c) (i) the receipt of an opinion from the Independent Financial Adviser to the Independent Board Committees confirming that the terms of the Service Agreement, including the Remuneration Package, are fair and reasonable, and (ii) the passing of an ordinary resolution by the Independent Shareholders at an extraordinary general meeting of the Company to approve the Service Agreement, including the Remuneration Package;

- (d) the Grand Court's sanction of the Scheme (with or without modifications) and its confirmation of the reduction of the share capital of the Company, and the delivery to the Registrar of Companies in the Cayman Islands of a copy of the order of the Grand Court for registration;
- (e) compliance, to the extent necessary, with the procedural requirements and conditions, if any, under Sections 15 and 16 of the Companies Law in relation to the reduction of the issued share capital of the Company;
- (f) all necessary authorisations, registrations, filings, rulings, consents, opinions, permissions and approvals in connection with the Proposal having been obtained from, given by or made with (as the case may be) the Relevant Authorities in the Cayman Islands, Hong Kong, the PRC, France and any other relevant jurisdictions;
- (g) all necessary authorisations, registrations, filings, rulings, consents, opinions, permissions and approvals in connection with the Proposal remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by any Relevant Authorities which is not expressly provided for, or is in addition to requirements expressly provided for, in relevant laws, rules, regulations or codes in connection with the Proposal or any matters, documents (including circulars) or things relating thereto, in each aforesaid case up to and at the time when the Scheme becomes effective;
- (h) all necessary consents which may be required for the implementation of the Proposal and the Scheme under any existing contractual obligations of the Company being obtained or waived by the relevant party(ies), where any failure to obtain such consent or waiver would have a Material Adverse Effect on the Magic Group;
- (i) no government, governmental, quasi-governmental, statutory or regulatory body, court or agency in any jurisdiction having taken or instituted any action, proceeding, suit, investigation or enquiry (or enacted, made or proposed, and there not continuing to be outstanding, any statute, regulation, demand or order) that would make the Proposal or the Scheme or its implementation in accordance with its terms void, unenforceable, illegal or impracticable (or which would impose any material and adverse conditions or obligations with respect to the Proposal or the Scheme or its implementation in accordance with its terms), other than such actions, proceedings, suits, investigations or enquiries as would not have a material adverse effect on the legal ability of the Offeror to proceed with the Proposal or the Scheme; and
- (j) since the Announcement Date there having been no Material Adverse Effect on the Magic Group.

The Offeror reserves the right to waive Conditions (f), (g), (h), (i) and (j) either in whole or in part, either generally or in respect of any particular matter. Conditions (a), (b), (c), (d) and (e) cannot be waived in any event. Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offeror may only invoke any or all of the Conditions as a basis for not proceeding with the Scheme if the circumstances which give rise to the right to invoke any such Condition are of material significance to the Offeror in the context of the Proposal. All of the above Conditions will have to be satisfied, or waived, as applicable, on or before the Conditions Long Stop Date (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the Executive may consent to and the Grand Court may direct or in accordance with the Takeovers Code), failing which the Proposal and the Scheme will lapse. The Company has no right to waive any of the Conditions.

None of the Conditions set out above has been satisfied as at the Latest Practicable Date, save that the conditions referred to in paragraphs (i) and (j) above are continuing conditions.

Assuming that the above Conditions are fulfilled (or, as applicable, waived in whole or in part), it is expected that the Scheme will become effective on or before Monday, 7 April 2014. Further announcements will be made giving details of the results of the Court Meeting and EGM and, if all the resolutions are passed at those meetings, the result of the hearing of the petition for the sanction of the Scheme and confirmation of reduction of capital as a result of the cancellation of the Shares by the Grand Court, the Record Date, the Effective Date and the date of withdrawal of the listing of the Shares on the Stock Exchange.

If the Scheme is not approved or the Proposal otherwise lapses, an announcement will be made by the Offeror and the Company, and trading of the Shares on the Stock Exchange will resume.

4 SCHEME OF ARRANGEMENT UNDER SECTION 86 OF THE COMPANIES LAW AND THE COURT MEETING

Pursuant to Section 86 of the Companies Law, where an arrangement is proposed between a company and its members or any class of them, the Grand Court may, on the application of the company or any member of the company, order a meeting of the members of the company or class of members, as the case may be, to be held in such manner as the Grand Court directs.

It is expressly provided in Section 86(2) of the Companies Law that if a majority in number representing 75% in value of the members or class of members, as the case may be, present and voting either in person or by proxy at the meeting or meetings, as the case may be, held as directed by the Grand Court as aforesaid, agree to any arrangement, the arrangement shall, if sanctioned by the Grand Court, be binding on all members or class of members, as the case may be, and also on the company.

5 ADDITIONAL REQUIREMENTS AS IMPOSED BY RULE 2.10 OF THE TAKEOVERS CODE

In addition to satisfying any requirements imposed by law as summarised above, other than with the consent of the Executive to dispense with compliance or strict compliance therewith, Rule 2.10 of the Takeovers Code requires that the Scheme may only be implemented if:

- (a) the Scheme is approved by at least 75% of the votes attaching to the disinterested Shares that are cast either in person or by proxy at a duly convened meeting of the holders of the disinterested Shares (such holders being the Independent Shareholders); and
- (b) the number of votes cast against the resolution to approve the Scheme at such meeting is not more than 10% of the votes attaching to all disinterested Shares (namely, the Shares held by all Independent Shareholders).

For the purpose of this vote, Independent Shareholders comprise all Shareholders as at the Meeting Record Date other than the Offeror, Mr. She and his associates (including the SPVCo, his spouse and the Share Award Plan Trustee) and any other party acting in concert with any of them. Shareholders who are not Independent Shareholders will be required to abstain from voting at the Court Meeting in accordance with the Takeovers Code.

As at the Latest Practicable Date, the Independent Shareholders held in aggregate 90,155,434 Shares. On that basis, 10% of the votes attached to all disinterested Shares referred to at (b) above therefore represent approximately 90,015,543 Shares as at the Latest Practicable Date.

6 BINDING EFFECT OF THE SCHEME

Upon the Scheme becoming effective, it will be binding on the Company and all Shareholders, regardless of how they voted at the Court Meeting and EGM.

7 SHAREHOLDING STRUCTURE OF THE COMPANY

On the assumption that no Awarded Shares are vested in the grantees of the Awarded Shares after the Latest Practicable Date before the Record Date, and the assumption that there is no other change in shareholdings, the table below sets out the shareholding structure of the Company as at the Latest Practicable Date and immediately upon completion of the Proposal:

Shareholders	As at the Latest Practicable Date		Upon completion of the Proposal	
	<i>Number of Shares</i>	<i>%</i>	<i>Number of Shares</i>	<i>%</i>
Offeror	—	—	1,037,892,736	100
Relevant members of BNP Paribas group	<u>132,000</u>	<u>0.01</u>	<u>—</u>	<u>—</u>
Aggregate number of Shares of the Offeror and the Offeror Concert Parties	132,000	0.01	1,037,892,736	100
Mr. She ^{1, 8}	122,162,633	11.77	—	—
Share Award Plan Trustee ^{2, 8}	<u>15,442,669</u>	<u>1.49</u>	<u>—</u>	<u>—</u>
Aggregate number of Shares not voting on the Scheme	<u>137,737,302</u>	<u>13.27</u>	<u>—</u>	<u>—</u>
Mr. Tang Siu Kun Stephen ³	94,084,433	9.06	—	—
Mr. Luo Yao Wen ⁴	38,039,659	3.67	—	—
Mr. Sun Yan ⁵	360,000	0.03	—	—
Mr. Yan Kam Tong ⁵	360,000	0.03	—	—
Professor Yang Rude ⁵	130,000	0.01	—	—
Baring ⁶	217,295,000	20.94	—	—
Greenwoods Asset Management Limited	96,304,043	9.28	—	—
Atlantis Capital Holdings Limited ⁷	54,634,261	5.26	—	—
Other public Shareholders	398,948,038	38.45	—	—
Total number of Independent Shareholders	<u>900,155,434</u>	<u>86.73</u>	<u>—</u>	<u>—</u>
Total	<u>1,037,892,736</u>	<u>100.00</u>	<u>1,037,892,736</u>	<u>100.00</u>

Notes:

- (1) As at the Latest Practicable Date, SPVCo, a company wholly-owned by Mr. She, was the beneficial owner of 121,994,079 Shares. Wu Xiao Qing, the spouse of Mr. She, was the beneficial owner of 168,554 Shares. Mr. She was therefore deemed to be interested in the Shares which SPVCo and Wu Xiao Qing were interested in under the SFO.

- (2) Following the Announcement Date, on 24 February 2014, the Company made an award of 474,850 Shares to three eligible participants under the Share Award Plan, such eligible participants not being a director or a connected person of the Company. As a result following such award, as at the Latest Practicable Date, the Share Award Plan Trustee held 15,442,669 Shares, of which 11,833,490 were Awarded Shares, and 1,604,684 Awarded Shares were granted to Mr. Tang Siu Kun Stephen, 2,076,650 Awarded Shares were granted to Mr. She, and 639,776 Awarded Shares were granted to Mr. Luo Yao Wen, each an executive director of the Company, 335,620 Awarded Shares were granted to the spouse of Mr. She, 52,440 Awarded Shares were granted to a sister of Mr. She and 377,572 Awarded Shares were granted to the spouse of Mr. Luo Yao Wen. The remaining 6,746,748 Awarded Shares held by the Share Award Plan Trustee were granted to other members of senior management and employees of the Magic Group.

The Share Award Plan Trustee also held 3,609,179 Shares (i.e. the Other Distributions) received by it as a result of a scrip dividend scheme and bonus issue by the Company in December 2010 and December 2011 respectively. These 3,609,179 Shares were held by the Share Award Plan Trustee for and on behalf of the respective grantees until the relevant vesting dates, among which 509,890 Shares were held on behalf of Mr. Tang Siu Kun Stephen, 659,859 Shares were held on behalf of Mr. She, 203,288 Shares were held on behalf of Mr. Luo Yao Wen, each an executive director of the Company, 106,644 Shares were held on behalf of the spouse of Mr. She, 16,663 Shares were held on behalf of a sister of Mr. She and 119,973 Shares were held on behalf of the spouse of Mr. Luo Yao Wen. The remaining 1,992,862 Shares of the 3,609,179 Shares were held on behalf of other members of senior management and employees of the Magic Group.

All of the 15,442,669 Shares were held by the Share Award Plan Trustee for and on behalf of the respective grantees until the relevant vesting dates.

- (3) As at the Latest Practicable Date, Mr. Tang Siu Kun Stephen directly and beneficially owned 3,690,362 Shares. Mr. Tang Siu Kun Stephen wholly owned MG Company Limited and Charm Magna Limited, which were the beneficial owners of 63,301,170 Shares and 27,092,901 Shares, respectively. Mr. Tang Siu Kun Stephen was therefore deemed to be interested in the Shares which MG Company Limited and Charm Magna Limited were interested in under the SFO.
- (4) As at the Latest Practicable Date, Mr. Luo Yao Wen wholly owned Multiple Gains Investments Limited, which was the beneficial owner of 37,647,787 Shares. Wen Yan Juan, the spouse of Mr. Luo Yao Wen, was the beneficial owner of 391,872 Shares. Mr. Luo Yao Wen was therefore deemed to be interested in the Shares which Multiple Gains Investments Limited and Wen Yan Juan were interested in under the SFO.
- (5) Mr. Sun Yan is a non-executive director of the Company. Each of Mr. Yan Kam Tong and Professor Yang Rude is an independent non-executive director of the Company.
- (6) As at the Latest Practicable Date, Baring Private Equity Asia GP V Limited is the general partner of a limited partnership (Baring Private Equity Asia GP V LP), which was the general partner of another limited partnership (The Baring Asia Private Equity Fund V LP), which was one of the limited liability partnerships comprising The Baring Asia Private Equity Fund V and which controlled more than one-third of the issued shares in Baring. Jean Eric Salata was the sole shareholder of Baring Private Equity Asia GP V Limited. Each of Baring Private Equity Asia GP V Limited and Jean Eric Salata was therefore deemed to be interested in 217,295,000 Shares held by Baring. Jean Eric Salata disclaimed beneficial ownership of such Shares, other than to the extent of his economic interest in such entities.
- (7) Among the 54,634,261 Shares in which Atlantis Capital was interested as at the Latest Practicable Date, (i) 12,000,000 Shares were held by various portfolios managed by Atlantis, and (ii) 42,634,261 Shares were owned by a fund to which Riverwood Asset Management (Cayman) Limited was the investment manager and Atlantis was the sub-investment manager. Atlantis was a wholly-owned subsidiary of Atlantis Capital Holdings Limited, an entity controlled by Yang Liu.

- (8) As Mr. She is interested in the Service Agreement, and the completion of the Scheme is conditional upon the passing of an ordinary resolution by the Independent Shareholders at an extraordinary general meeting of the Company to approve the Service Agreement, including the Remuneration Package, to avoid a conflict of interest, the Offeror, Mr. She and his associates (including the SPVCo, his spouse and the Share Award Plan Trustee) and any other party acting in concert with any of them, will abstain from voting on the Scheme at the Court Meeting and on the Service Agreement, including the Remuneration Package, at the Company's extraordinary general meeting.

Following the Effective Date and the withdrawal of listing of the Shares on the Stock Exchange, the Offeror will hold the entire issued share capital of the Company.

As at the Latest Practicable Date, the Offeror did not hold any Shares, and the Offeror Concert Parties held in aggregate 132,000 Shares, representing approximately 0.01% of the issued share capital of the Company.

As at the Latest Practicable Date, there were no outstanding options, warrants, derivatives or other securities issued by the Company that carry a right to subscribe for or which were convertible into Shares.

8 TOTAL CONSIDERATION

On the basis of the Cancellation Price of HK\$6.30 per Share and 1,037,892,736 Shares in issue as at the Latest Practicable Date, the Shares are in aggregate valued at approximately HK\$6,538.72 million.

The Offeror intends to finance the cash required for the Proposal and the Scheme from the internal financial resources of the Offeror Group. BNP Paribas SA (the parent company of BNP Paribas group) has also granted the Offeror a credit facility in the amount of EUR650 million (equivalent to approximately HK\$6,933.7 million), which may be used by the Offeror to finance the Proposal and the Scheme, if necessary. The Offeror confirms that payment of the interest and principal of such credit facility, and security for any liability (contingent or otherwise) under such credit facility, would not be dependent to any significant extent on the business of the Magic Group. As at the Latest Practicable Date, BNP Paribas, the financial adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror for the full implementation of the Proposal and the Scheme and, if the acquisition of the Company is implemented by way of a general offer, the full acceptance of the Offer.

9 COMPARISON OF VALUE AND FINANCIAL EFFECTS

Cancellation Price

The Cancellation Price of HK\$6.30 per Share represents a premium of approximately:

- 37.0% over the closing price of HK\$4.60 per Share as quoted on the Stock Exchange on 26 July 2013, being the last Business Day on which the Shares were traded on the Stock Exchange prior to the commencement of the offer period on 2 August 2013 (i.e. the date of which the Company first announced the possibility of an offer for all the Shares of the Company);

- 24.8% over the closing price of HK\$5.05 per Share as quoted on the Stock Exchange on the Last Trading Day;
- 26.8% over the average closing price of approximately HK\$4.97 per Share based on the daily closing prices as quoted on the Stock Exchange for the 5 trading days up to and including the Last Trading Day;
- 25.5% over the average closing price of approximately HK\$5.02 per Share based on the daily closing prices as quoted on the Stock Exchange for the 10 trading days up to and including the Last Trading Day;
- 25.7% over the average closing price of approximately HK\$5.01 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;
- 29.9% over the average closing price of approximately HK\$4.85 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day;
- 66.7% over the average closing price of approximately HK\$3.78 per Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Day; and
- 1.3% over the closing price of HK\$6.22 per Share as at the Latest Practicable Date.

Dividends

The Company's ability to pay dividends is limited by Cayman Islands law, which allows a Cayman Islands company to declare and pay dividends only out of either profit and/or share premium account and/or the proceeds of a new issue of shares, subject, in each case, to such company being able to continue to pay its debts as they fall due in the ordinary course of business.

The share premium account is described in Section 34 of the Companies Law (2013 Revision) of the Cayman Islands. When a company issues shares at a premium to par value, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares is deemed to be transferred to the share premium account. The share premium account is a notional account with meaning only in the context of share distributions by Cayman Islands companies. Amounts standing to the credit of the share premium account are notionally reduced to the extent that a company funds any dividend, redemption or repurchase amount from such account.

Shareholders whose names appear on the register of members of the Company as at the record date for entitlement to dividend, if any, declared by the Company on or before the Effective Date will be entitled to receive such dividend (if any). The Company does not expect to declare any dividend on or before the Effective Date.

10 REASONS FOR AND BENEFITS OF THE PROPOSAL AND THE SERVICE AGREEMENT

The Offeror has identified the Company as the ideal fit to complement the Offeror Group's activity in the PRC. It has a great admiration for the impressive success story of the Company in terms of the strong management team, expertise in the mass consumer market, market presence, growth dynamics and profitability, developed under the leadership of its co-founders and with the support of its core shareholders. The Offeror believes the Company shares the same values of excellence, innovation and product quality as the Offeror Group, and trusts that the Company would effectively complement its presence in the PRC and that the two groups could share knowledge and expertise.

As such, the Offeror intends to continue, after the Scheme becomes effective, the existing business and operations of the Magic Group as an autonomous business unit of the Offeror. The Offeror expects to review the Company, its corporate structure, capitalisation, operations, assets, policies, and employees to consider and determine what changes, if any, would be appropriate to best organise and optimise the activities of the Company. Subject to any changes arising from such review, the Offeror does not expect to introduce any major changes to the business or discontinue the employment of the employees of the Magic Group, nor does it have any plans to redeploy any fixed assets of the Company. The Board has noted such intentions of the Offeror in respect of the Company and its employees and will render reasonable co-operation with the Offeror for the smooth running of the business of the Magic Group.

In addition, the Offeror has identified Mr. She as the key person to lead the Company after completion of the Scheme. The Offeror views Mr. She as having considerable expertise in the facial mask business in the PRC and values his long established relationships with suppliers, local authorities and employees of the Magic Group. The Service Agreement will serve to incentivise Mr. She to remain with the Company for a term of at least three years and his Remuneration Package will serve to motivate him to continue to contribute to the growth and development of the Magic Group upon implementation of the Scheme.

The Company has identified the Offeror as the ideal partner in accessing new markets with the Offeror's existing PRC platform. The Company believes that the Offeror has a long proven development history in cosmetic and beauty products with proven brand building strategies which can help the growth and development of the Company. More importantly, the Company believes that the Offeror can also provide expertise in research and development. Having considered the benefits, the Company believes that the Proposal will create synergies for the Company.

11 AWARDED SHARES

Pursuant to the Share Award Plan, unawarded Shares and Awarded Shares under the Share Award Plan are held by the Share Award Plan Trustee prior to their award and/or vesting to the grantees. Following the Announcement Date, on 24 February 2014, the Company made an award of 474,850 Shares to three eligible participants under the Share Award Plan, such eligible participants not being a director or a connected person of the Company. As a result following such award, as at the Latest Practicable Date, there were 15,442,669 Shares held by the Share Award Plan Trustee under the Share Award Plan, of which 11,833,490 were

Awarded Shares and 1,604,684 Awarded Shares were granted to Mr. Tang Siu Kun Stephen, 2,076,650 Awarded Shares were granted to Mr. She, 639,776 Awarded Shares were granted to Mr. Luo Yao Wen, each an executive director of the Company, 335,620 Awarded Shares were granted to the spouse of Mr. She, 52,440 Awarded Shares were granted to a sister of Mr. She and 377,572 Awarded Shares were granted to the spouse of Mr. Luo Yao Wen. The remaining 6,746,748 Awarded Shares of the 11,833,490 Awarded Shares were granted to other members of senior management and employees of the Magic Group. As at the Latest Practicable Date, the Share Award Plan Trustee also held 3,609,179 Shares (i.e. the Other Distributions) received by it as a result of a scrip dividend scheme and bonus issue by the Company in December 2010 and December 2011 respectively. These 3,609,179 Shares were held by the Share Award Plan Trustee for and on behalf of the respective grantees until the relevant vesting dates, among which 509,890 Shares were held on behalf of Mr. Tang Siu Kun Stephen, 659,859 Shares were held on behalf of Mr. She, 203,288 Shares were held on behalf of Mr. Luo Yao Wen, each an executive director of the Company, 106,644 Shares were held on behalf of the spouse of Mr. She, 16,663 Shares were held on behalf of a sister of Mr. She and 119,973 Shares were held on behalf of the spouse of Mr. Luo Yao Wen. The remaining 1,992,862 Shares of the 3,609,179 Shares were held on behalf of other members of senior management and employees of the Magic Group. All of the 15,442,669 Shares were held by the Share Award Plan Trustee for and on behalf of the respective grantees until the relevant vesting dates.

As the terms of the Share Award Plan do not give grantees of Awarded Shares any legal or beneficial rights to Awarded Share(s) prior to their vesting, the Offeror will not be making an offer to the grantees of the Share Award Plan mentioned above. The Company has procured that any consideration payable by the Offeror to the Share Award Plan Trustee as a Scheme Shareholder pursuant to the Scheme shall be held on trust for the grantees of the Awarded Share(s) (including the Other Distributions). Such amounts shall be paid by the Share Award Plan Trustee to the grantees of the Awarded Share(s) by reference to the number of Awarded Share(s) (including the Other Distributions) attributable to such grantees on the Record Date as soon as possible within seven Business Days following the Scheme becoming effective.

None of the Awarded Shares under the Share Award Plan nor the Other Distributions will vest in the relevant grantee on or prior to the Record Date.

12 INFORMATION ON THE COMPANY

The Company is an exempted company incorporated in the Cayman Islands with limited liability, whose shares have been listed on the Main Board of the Stock Exchange since 24 September 2010. The Magic Group is principally engaged in the manufacture, sale and marketing of facial masks, wholesaling and retailing skincare, facial masks and other products on the Internet and in retail shops in China.

13 INFORMATION ON THE OFFEROR

The Offeror is a company incorporated in France as a société anonyme, whose shares are traded on the Paris Stock Exchange. The Offeror is one of the world's leading beauty companies, has catered to all forms of beauty products in the world for over 100 years and has built a portfolio of 28 international, diverse and complementary brands. With sales amounting to EUR23 billion in 2013, the Offeror employs 77,400 people worldwide.

14 WITHDRAWAL OF LISTING OF SHARES

Upon the Scheme becoming effective, all Shares will be cancelled and the share certificates for the Shares will thereafter cease to have effect as documents or evidence of title. The Offeror does not intend the Company to remain listed on the Stock Exchange. The Company will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange to take effect immediately following the Effective Date.

15 IF THE SCHEME IS NOT APPROVED OR THE PROPOSAL LAPSES

The Proposal will lapse if it does not become effective on or before 29 April 2014 (or such later date as the Offeror and the Company may agree and the Grand Court may allow and in accordance with the Takeovers Code), and the Shareholders will be notified by way of announcement accordingly. If the Scheme is not approved or the Proposal otherwise lapses, trading of the Shares on the Stock Exchange will resume. In such circumstances, the Company has no intention to seek the immediate withdrawal of the listing of the Shares on the Stock Exchange in connection with the Proposal. Magic retains full flexibility to voluntarily terminate at a later date the listing of the Shares on the Stock Exchange, subject to compliance with applicable law, listing requirements and the requirements of the Takeovers Code (if applicable).

If the Scheme is not approved or the Proposal otherwise lapses, there are restrictions under the Takeovers Code on making subsequent offers to the effect that neither the Offeror nor any person who acted in concert with it in the course of the Proposal (nor any person who is subsequently acting in concert with any of them) may within 12 months from the date on which the Proposal lapses announce an offer or possible offer for the Company, except with the consent of the Executive.

16 IRREVOCABLE UNDERTAKINGS

The Founders, Baring, Greenwoods and Atlantis, as principal and or on behalf of the Atlantis Investors, had each given an irrevocable undertaking to the Offeror.

The Founders

Under the irrevocable undertakings given by each of the Founders, each of them has undertaken, to the extent permitted under applicable laws, rules and regulations, to exercise, or as the case may be, to procure the exercise of the voting rights in respect of all the Shares owned by him directly or indirectly, being 252,839,365 Shares which are

the subject of their undertakings, in the manner directed by the Offeror in respect of any resolutions which are necessary to implement the Proposal and the Scheme proposed at a general or class meeting of the Company.

The irrevocable undertakings given by the Founders also provide that the Founders shall not sell, transfer, charge, encumber, grant any option over or otherwise dispose of any interest in any of the Shares nor will they accept any other offer in respect of all or any of such Shares.

Under the terms of the irrevocable undertakings given by the Founders, the undertakings will lapse if (a) the Announcement has not been released by 15 August 2013 (or such later date as the Offeror and the Company may agree), (b) if the Pre-Conditions are not satisfied by 30 April 2014 (or such later date as the Offeror and the relevant Founder may agree), or (c) if the Scheme does not become effective, lapses or is withdrawn in accordance with its terms.

Institutional Shareholders

Baring Irrevocable Undertaking

Under the irrevocable undertaking given by Baring, it has undertaken, to the extent permitted under applicable laws, rules and regulations, to exercise, or as the case may be, to procure the exercise of the voting rights in respect of all the Shares owned by it directly or indirectly, being 217,295,000 Shares which are the subject of its undertaking, in favour of all resolutions which are necessary to implement the Proposal and the Scheme proposed at a general or class meeting of the Company.

The irrevocable undertaking given by Baring also provides that it shall not sell, transfer, charge, encumber, grant any option over or otherwise dispose of any interest in any of the Shares nor will it accept any other offer in respect of all or any of such Shares.

The irrevocable undertaking given by Baring will lapse if (a) the Announcement has not been released by 15 August 2013 and the filing to MOFCOM in connection with the MOFCOM Pre-Condition has not been submitted by 6:00 p.m. (Hong Kong time) on the business day after the release of the Announcement (or such later dates as the Offeror, the Company and Baring may agree), (b) the Nominee Pre-Condition is not satisfied or waived prior to the satisfaction of the MOFCOM Pre-Condition, (c) the Scheme, or the Offer, as applicable, is amended without Baring's consent (save for Baring Permitted Amendments which do not require Baring's consent) or does not become effective, lapses or is withdrawn, (d) the Scheme is not approved by the Shareholders by 5:30 p.m. on the day falling three months after the despatch of the Scheme Document or where the acquisition of the Company is implemented by way of an Offer, the acceptance period relating to such Offer has not ended by 5:30 p.m. on the day falling three months after the despatch of the circular relating to the Offer, or (e) the Scheme is not effective on or before a date falling three months from the date of the satisfaction or waiver (as applicable) of all the Pre-Conditions.

Greenwoods Irrevocable Undertaking

As at the Latest Practicable Date, Greenwoods directly or indirectly held 96,304,043 Shares. Under the irrevocable undertaking given by Greenwoods, it has undertaken, to the extent permitted under applicable laws, rules and regulations, to exercise, or as the case may be, to procure the exercise of the voting rights in respect of 96,304,043 Shares owned by it directly or indirectly which are the subject of its undertaking, in favour of all resolutions which are necessary to implement the Proposal and the Scheme proposed at a general or class meeting of the Company.

The irrevocable undertaking given by Greenwoods also provides that it shall not sell, transfer, charge, encumber, grant any option over or otherwise dispose of any interest in any of the Shares nor, subject to any duty owed by it to act in the best interests of its investors, shall it vote in favour of any resolution to approve any scheme of arrangement of the Company which is proposed in competition with the Scheme.

The irrevocable undertaking given by Greenwoods will lapse if (a) the Announcement has not been released by 15 August 2013 (or such later date as Greenwoods may agree), (b) the Pre-Conditions are not satisfied or waived (as applicable) by 30 April 2014 (or such later date as Greenwoods may agree), (c) an undertaking in the form substantially similar to the undertaking given by Greenwoods representing at least 10 per cent. of the Shares as of 10 August 2013 terminates upon the Offeror's written consent at the time of termination, (d) the Scheme does not become effective within four calendar months after the date the Pre- Conditions are satisfied or waived, lapses or is withdrawn in accordance with its terms, or (e) Independent Shareholders holding no less than 10 per cent. of the Shares in aggregate vote against the Scheme.

Atlantis Investors Irrevocable Undertakings

As at the Announcement Date, Atlantis was deemed to be interested in 84,894,579 Shares under the SFO. Under the irrevocable undertakings given by Atlantis, as principal and/or on behalf of the Atlantis Investors, Atlantis undertook, to the extent permitted under applicable laws, rules and regulations, to exercise, or as the case may be, to procure the exercise of the voting rights in respect of 79,894,579 Shares held by the Atlantis Investors in portfolios managed by Atlantis in favour of all resolutions which are necessary to implement the Proposal and the Scheme proposed at a general or class meeting of the Company. The Offeror did not receive any irrevocable commitment to vote for, or against, the Scheme in respect of the remaining 5,000,000 Shares which Atlantis was deemed to be interested in under the SFO.

The irrevocable undertakings given by Atlantis, as principal and on behalf of the Atlantis Investors, also provide that they shall not (whether through Atlantis or otherwise) sell, transfer, charge, encumber, grant any option over or otherwise dispose of any interest in any of the Shares managed by Atlantis which are the subject of the undertakings. Further, Atlantis, as principal, shall not, on behalf of any Atlantis Investor, accept any other offer in respect of all or any of such Shares.

Subsequent to the Announcement Date, Atlantis filed a public disclosure form dated 30 October 2013 under Rule 22 of the Takeovers Code in respect of a disposal of 30,260,318 Shares (the “**Relevant Shares**”). The Offeror has been informed that Atlantis ceased to be the manager of the Relevant Shares on 29 October 2013. However, the beneficial holder of the Relevant Shares has confirmed to the Offeror that it will vote all of the Relevant Shares in favour of the Proposal and the Scheme, and will not otherwise deal in or dispose of the Relevant Shares. As at the Latest Practicable Date, Atlantis was deemed to be interested in 54,634,261 Shares under the SFO.

The irrevocable undertakings given by Atlantis, as principal and on behalf of the Atlantis Investors, will lapse if (a) the Announcement has not been released by 15 August 2013 (or such later date as the Offeror, the Atlantis Investors and the Company may agree) but in any case not later than 1 September 2013, (b) the Pre-Conditions are not satisfied by 30 April 2014 (or such later date as the Offeror, the Atlantis Investors and the Company may agree), or (c) the Scheme does not become effective, lapses or is withdrawn in accordance with its terms.

17 SERVICE AGREEMENT AND REMUNERATION PACKAGE

Upon the Scheme becoming effective, Mr. She, an executive director, will serve as chief executive officer of the Magic Group and director of Magic Holdings Group Limited, a wholly-owned subsidiary of the Company, in order to continue to contribute to the growth and development of the Company and work with the Offeror to further build the Magic brand. Accordingly, the Employer and Mr. She have entered into a Service Agreement setting out the terms of employment of Mr. She, which will be subject to the approval of the Board and will take effect on the Effective Date. L’Oréal China has executed a guarantee in favour of Mr. She to guarantee the due performance by the Employer of its obligations under the Service Agreement. The terms of the Service Agreement are set out below.

Service Agreement

Base Salary and Regular Bonus

Under the Service Agreement, Mr. She will be entitled to a gross base salary of RMB3,000,000 per annum, payable monthly, and a Regular Bonus of RMB900,000 per annum, payable annually for three years from the Effective Date. The Regular Bonus will be subject to Mr. She meeting the performance targets set out in the annual budget of the Magic Group, which is subject to the Company’s approval, for consolidated net sales, earnings before interest and tax and market share of the Magic Group and in accordance with the policies in place from time to time of L’Oréal China which are of general application to employees of a similar level of seniority as Mr. She.

Retention Bonus

As appreciation of Mr. She’s commitment to serve as the chief executive officer of the Magic Group, Mr. She will be entitled to a one-off Retention Bonus equivalent to a gross amount of HK\$9,000,000. The Retention Bonus is payable by the Employer in RMB in three equal instalments on the first, second and third anniversary of the Effective Date,

respectively. The Employer shall deposit each instalment into an escrow account at the Escrow Bank, as escrow agent, notwithstanding any termination of the Service Agreement, save for any such termination by Mr. She as a result of his resignation as the chief executive officer of the Magic Group without the Employer's consent before the third anniversary of the Effective Date. The Retention Bonus shall bear interest as set out in the Retention Bonus Escrow Agreement.

The Retention Bonus, together with interest earned on it, shall be released automatically from escrow to Mr. She on the third anniversary of the Effective Date, unless:

- (i) Mr. She ceases to be employed by the Employer before the third anniversary of the Effective Date due to an inability by him to discharge his duties as chief executive officer of the Magic Group due to (a) death or, (b) in the reasonable opinion of an independent medical practitioner reasonably acceptable to him and the Employer, a long-term illness or permanent disability, in which case, upon the occurrence of such event:

- (1) the Retention Bonus, together with interest earned on it; and

- (2) a pro-rata amount of the instalment for the year which the relevant event occurred, calculated by dividing an amount equal to an instalment by 365 days and multiplying such number by the aggregate number of days from the day after the preceding deposit date of an instalment, to the date of release of the relevant amounts from escrow,

will each be released and paid promptly to Mr. She (or his legal representative);
or

- (ii) Mr. She resigns as chief executive officer of the Magic Group before the third anniversary of the Effective Date without the Employer's written consent, in which case the Retention Bonus, together with interest earned on it, will be released immediately from escrow to the Employer and Mr. She shall no longer be entitled to any further instalments which have not been deposited by the Employer into escrow.

The Employer, Mr. She and the Escrow Bank have entered into the Retention Bonus Escrow Agreement on 20 February 2014 to implement the Retention Bonus arrangement described above.

Performance Bonuses

As incentive for Mr. She to continue to contribute to the growth and development of the Magic Group upon implementation of the Scheme, an Annual Bonus based on the annual financial performance of the Magic Group and a one-off Additional Bonus based on the financial performance of the Magic Group over a three-year period will form part of his remuneration. Further details on the Annual Bonus and the Additional Bonus are set out below.

Annual Bonus

The Annual Bonus will be a cash amount payable by the Employer equal to two and a half per cent. of the annual increase in the Turnover for each Annual Bonus Year, provided that:

- (i) Mr. She has been the chief executive officer of the Magic Group throughout the relevant Annual Bonus Year and remains so on 31 December of the relevant Annual Bonus Year;
- (ii) the Original Magic Group attains the Minimum Ratio for the relevant Annual Bonus Year; and
- (iii) the Baili EBIT is positive for the relevant Annual Bonus Year. Otherwise, the Annual Bonus for that Annual Bonus Year shall be reduced by 20 per cent., save that any amount equal to such reduction shall be payable to Mr. She if the aggregate three-year Baili EBIT accumulated over the three Annual Bonus Years is positive.

In the event that the employment of Mr. She is terminated by mutual agreement between the two parties prior to 31 December of an Annual Bonus Year, Mr. She shall be entitled to two and a half per cent. of the increase in the Turnover for the period during which Mr. She is employed by the Employer as compared to the same period of the preceding calendar year provided that:

- (i) the Original Magic Group attains the Minimum Ratio for that relevant period; and
- (ii) the Baili EBIT is not zero or negative for that relevant period.

Additional Bonus

The Additional Bonus will be a cash amount payable by the Employer equal to two and a half per cent. of the aggregate increase in the Turnover over the Additional Bonus Years, provided that:

- (i) Mr. She has been the chief executive officer of the Magic Group throughout the Additional Bonus Years and remains so on 31 December 2016;

- (ii) the Original Magic Group attains the Minimum Ratio for all Additional Bonus Years. Otherwise, the Additional Bonus will be reduced by one-third for each Additional Bonus Year that the Magic Group is not able to attain the Minimum Ratio; and
- (iii) the Baili EBIT accumulated over the Additional Bonus Years is positive. Otherwise the Additional Bonus will be reduced by 20 per cent.

The reference years applicable to the determination of the Annual Bonus and the Additional Bonus assume that the Scheme will become effective on or before 30 June 2014. Where the Scheme becomes effective after 30 June 2014, the reference dates will be adjusted accordingly.

Term of the Service Agreement

The initial term of the Service Agreement will be a period commencing on the Effective Date, continuing for a term of at least three full calendar years, and shall end on the end of the third full calendar year, unless terminated in accordance with the terms of the Service Agreement.

Approval of the Remuneration Package and the Service Agreement

As Mr. She is a Shareholder and the Remuneration Package is applicable only to Mr. She and is not being offered to all Shareholders, the Remuneration Package constitutes a special deal under Rule 25 of the Takeovers Code and requires the consent of the Executive under Note 3 to Rule 25 of the Takeovers Code. The Offeror has therefore made an application to the Executive for its consent to the Remuneration Package as a special deal under Rule 25 of the Code, conditional on the Independent Financial Adviser publicly stating that in its opinion the terms of the Remuneration Package are fair and reasonable, and the passing of an ordinary resolution by the Independent Shareholders at an extraordinary general meeting of the Company to approve the terms of the Remuneration Package.

Accordingly, as set out in Condition (c), the Proposal and the Scheme are subject to (i) the receipt of a publicly stated opinion from the Independent Financial Adviser confirming that the terms of the Remuneration Package are fair and reasonable, and (ii) the passing of an ordinary resolution by the Independent Shareholders at an extraordinary general meeting of the Company to approve the terms of the Remuneration Package.

The full text of the letter from the Independent Board Committee is set out in Part V of this Scheme Document, and the full text of the letter from the Independent Financial Adviser is set out in Part VI of this Scheme Document.

Further, as the initial term of the Service Agreement is for a duration exceeding three years, pursuant to Rule 13.68 of the Listing Rules, the Service Agreement will be subject to Independent Shareholders' approval, and the Listing Rules Independent Board Committee shall form a view in respect of the Service Agreement and advise the

Independent Shareholders as to (i) whether the terms of the Service Agreement are fair and reasonable, (ii) whether the Service Agreement is in the interests of the Company and the Shareholders as a whole and (iii) how to vote.

The full text of the letter from the Listing Rules Independent Board Committee is set out in Part VII of this Scheme Document.

Retention Arrangement

As an indication of Mr. She's commitment to remain the chief executive officer of the Magic Group after completion of the Proposal, Mr. She will permit 20 per cent. of the consideration payable to him or SPVCo, as applicable, for the Shares held by him or SPVCo, as applicable, pursuant to the Scheme, to be placed into a HK\$ denominated escrow account at the Escrow Bank for the Retention Term. The Retention Amount will bear interest as set out in the Retention Arrangement Escrow Agreement.

The Retention Amount, together with interest earned on it, will be released from escrow to Mr. She upon completion of the Retention Term unless (i) he ceases to be employed by the Magic Group prior to the third anniversary of the Effective Date due to an inability by him to discharge his duties as chief executive officer of the Magic Group due to death or, in the reasonable opinion of an independent medical practitioner reasonably acceptable to him and the Offeror, long-term illness or permanent disability, in which case the Retention Amount, together with interest earned on it, will be released promptly from escrow to Mr. She or SPVCo (or his legal representative) upon the occurrence of such an event; or (ii) he resigns as chief executive officer of the Magic Group prior to the third anniversary of the Effective Date without the Employer's written consent, in which case the Retention Amount, together with interest earned on it, will be released promptly from escrow to the Offeror.

The Offeror, Mr. She and the Escrow Bank have entered into the Retention Arrangement Escrow Agreement on 20 February 2014 to implement the Retention Arrangement described above.

18 COSTS OF THE SCHEME

If the Independent Board Committees or the Independent Financial Adviser does not recommend the Proposal, the Scheme, or the Service Agreement, including the Remuneration Package, and the Scheme is not approved, all expenses incurred by the Company in connection therewith shall be borne by the Offeror in accordance with Rule 2.3 of the Takeovers Code.

In addition, under the Implementation Agreement, it is agreed that, where the Proposal (a) is not completed and the Scheme does not become effective, other than as a result of (i) the Company's breach of the terms of the Implementation Agreement, or (ii) an event caused solely by the Company and which is within the Company's control, all costs and expenses incurred by the Company as a result of the Proposal, the Scheme and the transactions contemplated thereunder or under the Implementation Agreement, the Service Agreement and the Retention Arrangement Escrow Agreement, but excluding costs and expenses incurred by the Company in connection with a competing offer to acquire all or substantially all of the Shares, shall be

borne by the Offeror; and (b) is completed and the Scheme becomes effective, all costs and expenses incurred by and on behalf of the Company in connection with the Proposal, the Scheme and the transactions contemplated thereunder shall be borne by the Company.

19 REGISTRATION AND PAYMENT

Assuming that the Record Date falls on Monday, 7 April 2014, it is proposed that the register of members of the Company will be closed on Monday, 7 April 2014 (or such other date as the Shareholders may be notified by announcement) in order to establish entitlements under the Scheme. In order to qualify for entitlements under the Scheme, Shareholders should ensure that all transfers accompanied by the relevant share certificates must be lodged with the Hong Kong share registrar of the Company for registration in their names or in the names of their nominees by 4:30 p.m. on Friday, 4 April 2014. The Hong Kong share registrar of the Company is Tricor Investor Services Limited, which is located at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong (to be changed to Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong with effect from 31 March 2014).

Payment of Scheme Shareholders

Upon the Scheme becoming effective, payment of the Cancellation Price for the Shares will be made to the Shareholders whose names appear on the register of members of the Company as at the Record Date as soon as possible within seven Business Days following the Scheme becoming effective. On the basis that the Scheme becomes effective on or about Monday, 7 April 2014, cheques for payment of the Cancellation Price payable under the Scheme are expected to be despatched to the Scheme Shareholders by ordinary mail at their own risk on or before Wednesday, 16 April 2014.

In the absence of any specific instructions to the contrary received in writing by Tricor Investor Services Limited, the Hong Kong share registrar of the Company, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong (to be changed to Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong with effect from 31 March 2014), cheques will be sent by posting to the persons entitled thereto at their respective registered addresses or, in the case of joint holders, to the registered address of that joint holder whose name stands first in the register of members of the Company in respect of the joint holding. All such cheques will be sent at the risk of the person(s) entitled thereto and none of the Offeror, the Company, BNP Paribas or any of them will be responsible for any loss or delay in receipt.

On or after the day being six calendar months after the posting of such cheques, the Offeror shall have the right to cancel or countermand payment of any such cheque which has not been cashed or has been returned uncashed, and shall place all monies represented thereby in a deposit account in the Company's name with a licensed bank in Hong Kong selected by the Company.

The Company shall hold such monies until the expiry of six years from the Effective Date and shall prior to such date, make payments thereout of the sums, without interest, to persons who satisfy the Company that they are respectively entitled thereto. On the expiry of six years from the Effective Date, the Offeror shall be released from any further

obligation to make any payments under the Scheme and the Company shall thereafter transfer to the Offeror the balance (if any) of the sums then standing to the credit of the deposit account in the Company's name, including accrued interest subject, if applicable, to the deduction of any interest or withholding or other tax or any other deduction required by law and subject to the deduction of any expenses.

Settlement of the Cancellation Price to which the Scheme Shareholders are entitled under the Proposal will be implemented in full in accordance with the terms of the Proposal, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against any such Scheme Shareholder.

Payment of Grantees of Awarded Shares

As the terms of the Share Award Plan do not give grantees of Awarded Shares (including the Other Distributions) any legal or beneficial rights to Awarded Shares (including the Other Distributions) prior to their vesting, the Offeror will not be making an offer to the grantees of Awarded Shares (including the Other Distributions) under the Share Award Plan. Upon the Scheme becoming effective, payment of the Cancellation Price payable by the Offeror to the Share Award Plan Trustee as a Scheme Shareholder pursuant to the Scheme shall be held by the Share Award Plan Trustee on trust for the grantees of the Awarded Share(s) (including the Other Distributions). Such amounts shall be paid by the Share Award Plan Trustee to the grantees of the Awarded Share(s) (including the Other Distributions) by way of cheque, cash payment, bank transfer or deposit or such other means as otherwise agreed between the Share Award Plan Trustee and such grantees by reference to the number of Awarded Share(s) (including the Other Distributions) attributable to such grantees on the Record Date as soon as possible within seven Business Days following the Scheme becoming effective.

20 OVERSEAS SHAREHOLDERS

The making and implementation of the Proposal and the Scheme to Shareholders who are not resident in Hong Kong may be subject to the laws of the relevant jurisdictions in which such Shareholders are located. Such Shareholders should inform themselves about and observe any applicable legal or regulatory requirements of their own jurisdictions. It is the responsibility of any overseas Shareholders wishing to take any action in relation to the Proposal, respectively, to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with other necessary formalities and the payment of any issue, transfer or other taxes by such overseas Shareholder due in such jurisdiction. Any acceptance by such Shareholders will be deemed to constitute a representation and warranty from such persons to the Company and the Offeror that those local laws and regulatory requirements have been complied with. If you are in doubt as to your position, you should consult your professional advisers.

21 TAXATION AND INDEPENDENT ADVICE

Stamp Duty and Tax Consequences

As the Scheme does not involve the sale and purchase of Hong Kong stock, no Hong Kong stamp duty will be payable pursuant to the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong) on the cancellation of the Shares upon the Scheme becoming effective. No Cayman Islands stamp duty will become payable as a result of the Scheme.

Without prejudice to any other part of this Scheme Document, each Shareholder shall be responsible for complying with his own Tax obligation under the applicable laws and regulations in any jurisdiction, including but not limited to Tax filing obligations and Tax payment obligations with respect to income tax, withholding tax and stamp duty as a result of the implementation of the Proposal and the Scheme. Where the applicable laws and regulations or a Tax Authority in any jurisdiction requires Tax to be deducted or withheld from the Cancellation Price payable to any Scheme Shareholder, such Tax shall be so deducted or withheld from the Cancellation Price payable to the relevant Scheme Shareholder.

The Shareholders, whether in Hong Kong or in other jurisdictions, are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of the Proposal and, in particular, whether the receipt of the Cancellation Price would make such Shareholder liable to taxation in Hong Kong or in other jurisdictions.

22 SHAREHOLDING AND ENTITLEMENT TO VOTE

As at the Latest Practicable Date, Mr. She, his spouse, the SPVCo, the Share Award Plan Trustee and Mr. She's associates collectively held 137,605,302 Shares, representing 13.26% of the issued share capital of the Company. Such Shares will be cancelled upon the Scheme becoming effective and will not be voted on the Scheme at the Court Meeting or on the Service Agreement, including the Remuneration Package, at the extraordinary general meeting of the Company. As at the Latest Practicable Date, the Institutional Shareholders are interested (for the purposes of the SFO) in 368,233,304 Shares representing approximately 35.48% of the issued share capital of the Company. Such Shares will be cancelled upon the Scheme becoming effective. Pursuant to the Irrevocable Undertakings given by the Institutional Investors, 363,233,304 Shares will be voted on the Scheme at the Court Meeting. In addition, as set out in the section headed "16. Irrevocable Undertakings" in Part VIII — Explanatory Memorandum of this Scheme Document, the beneficial holder of 30,260,318 Shares previously managed by Atlantis (representing approximately 2.92% of the issued Shares capital of the Company) has confirmed to the Offeror that it will vote all of such Shares in favour of the Proposal and the Scheme.

As at the Latest Practicable Date, members of the BNP Paribas group (except those which are exempt principal traders and exempt fund managers, in each case recognised by the Executive as such for the purposes of the Takeovers Code) which are presumed to be acting in concert with the Offeror in relation to the Proposal under the Takeovers Code held 132,000 Shares, representing approximately 0.01% of the issued share capital of the Company. Such

Shares will be cancelled upon the Scheme becoming effective but will not be voted on the Scheme at the Court Meeting. In addition, pursuant to Rule 35.4 of the Takeovers Code, any Shares held by a connected exempt principal trader will not be voted on the Scheme at the Court Meeting.

All Shareholders will be entitled to attend the extraordinary general meeting of the Company and vote on (i) the special resolution to approve and give effect to the reduction of the share capital of the Company by cancelling and extinguishing the Shares, and (ii) the ordinary resolution to immediately thereafter increase the issued share capital of the Company to the amount prior to the cancellation of the Shares and apply the reserve created as a result of the aforesaid cancellation of the Shares to pay up in full at par such number of new Shares as is equal to the number of Shares cancelled as a result of the Scheme, credited as fully paid, for issuance to the Offeror.

23 COURT MEETING AND EGM

In accordance with the directions of the Grand Court, the Court Meeting will be held for the purpose of considering and, if thought fit, passing a resolution to approve the Scheme (with or without modifications).

The EGM will be held immediately following the Court Meeting for the purpose of (i) the Shareholders to consider and if thought fit, passing (1) the special resolution to approve and give effect to the reduction of the issued share capital of the Company by cancelling and extinguishing the Shares; (2) the ordinary resolution to immediately restore the issued share capital of the Company to the amount prior to the cancellation of the Shares by paying up in full at par such number of new Shares as is equal to the number of Shares cancelled as a result of the Scheme, credited as fully paid, for issuance to the Offeror; and (ii) the Independent Shareholders to consider and if thought fit, passing the ordinary resolution to approve the Service Agreement, including the Remuneration Package.

Beneficial Owners are urged to have their names entered in the register of members of the Company as soon as possible for, inter alia, the following reasons:

- (a) to enable Shareholders to attend the Court Meeting and to be included for the purposes of calculating the majority in number of Shareholders as required under Section 86 of the Companies Law in the capacity as members of the Company and to be represented by proxies to be appointed by them;
- (b) to enable the Company to properly classify members of the Company for the purposes of Section 86 of the Companies Law; and
- (c) to enable the Company and the Offeror to make arrangements to effect payments by way of the delivery of cheques to the most appropriate person when the Scheme becomes effective. All deliveries of cheques required for making payment in respect of the Shares as aforesaid shall be effected by duly posting the same in pre-paid envelopes addressed to the persons respectively entitled thereto at their respective addresses as appearing in the register of members of the Company as at the Record Date.

No person shall be recognised by the Company as holding any Shares upon any trust. In the case of any Beneficial Owner whose Shares are held upon trust by, and registered in the name of, a Registered Owner (other than HKSCC Nominees Limited), such Beneficial Owner should contact the Registered Owner and provide him, her or it with instructions or make arrangements with the Registered Owner in relation to the manner in which the Shares of the Beneficial Owner should be voted at the Court Meeting and/or the EGM. Such instructions and/or arrangements should be given or made in advance of the latest time for the lodgment of forms of proxy in respect of the Court Meeting and the EGM in order to provide the Registered Owner with sufficient time to accurately complete his, her or its proxy and to submit it by the deadline. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner at a particular date or time in advance of the latest time for the lodgment of forms of proxy in respect of the Court Meeting and the EGM, then any such Beneficial Owner should comply with the requirements of the Registered Owner.

Any Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited must, unless such Beneficial Owner is a person admitted to participate in CCASS as an Investor Participant, contact their broker, custodian, nominee or other relevant person who is, or has in turn deposited such Shares into CCASS regarding voting instructions to be given to such persons if they wish to vote in respect of the Scheme. Beneficial Owners should contact their broker, custodian, nominee or other relevant person in advance of the latest time for the lodgment of forms of proxy in respect of the Court Meeting and the EGM, in order to provide such broker, custodian, nominee or other relevant person with sufficient time to provide HKSCC with instructions or make arrangements with HKSCC in relation to the manner in which the Shares of the Beneficial Owner should be voted at the Court Meeting and/or the EGM. The procedure for voting in respect of the Scheme by the Investor Participants and CCASS Participants other than Investor Participants with respect to Shares registered under the name of HKSCC Nominees Limited shall be in accordance with the “General Rules of CCASS” and the “CCASS Operational Procedures”.

HKSCC will also vote for and against the Scheme in accordance with instructions received from CCASS Participants (as defined under the General Rules of CCASS). The number of votes cast in favour of the Scheme and the number of CCASS Participants on whose instructions they are cast and the number of votes cast against the Scheme and the number of CCASS Participants on whose instructions they are cast will be disclosed to the Grand Court and may be taken into account in deciding whether or not the Grand Court should exercise its discretion to sanction the Scheme.

Court Meeting

Shareholders whose names appear in the register of members of the Company as at the Meeting Record Date shall be entitled to attend and vote, in person or by proxy, at the Court Meeting. At the Court Meeting, Shareholders, present and voting either in person or by proxy, will be entitled to vote all of their respective Shares in favour of the Scheme or against it. Alternatively, Shareholders may vote some of their Shares in favour of the Scheme and any or all of the balance of their Shares against it (and vice versa).

The Scheme is conditional upon, amongst other things, approval by a majority in number of the Shareholders representing not less than 75% in value of the Shares present and voting in person or by proxy at the Court Meeting, provided that (i) the Scheme is approved (by way of poll) by Independent Shareholders holding at least 75% of the votes attaching to the Shares held by Independent Shareholders that are voted either in person or by proxy at the Court Meeting; and (ii) the number of votes cast (by way of poll) by Independent Shareholders present and voting either in person or by proxy at Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Shares held by all the Independent Shareholders.

Pursuant to the Companies Law, the “75% in value” requirement will be met if the total value of Shares being held by the Shareholders voted in favour of the Scheme is at least 75% of the total value of the Shares voted by the Shareholders at the Court Meeting. The “majority in number” requirement will be met if the number of Shareholders voting in favour of the Scheme exceeds the number of Shareholders voting against the Scheme. For the purpose of calculating the “majority in number” requirement, the number of Shareholders, present and voting in person or by proxy, will be counted. For example, if a Shareholder votes all of his/her/its Shares in favour of the Scheme, he/she/it will be counted as one Shareholder voting in favour of the Scheme for the purposes of the “majority in number” requirement; however, for the purpose of the Takeovers Code, only the number of Shares from an Independent Shareholder being so voted will count towards the “75% in value” requirement.

Notice of the Court Meeting is set out in Appendix IV to this Scheme Document. The Court Meeting will be held at 2:00 p.m. (Hong Kong time) on Monday, 24 March 2014 at Marina Room I, 2/F, The Excelsior Hotel, 281 Gloucester Road, Causeway Bay, Hong Kong.

EGM

All Shareholders whose names appear in the register of members of the Company as at the Meeting Record Date shall be entitled to attend and vote, in person or by proxy, at the EGM with respect to (i) the special resolution to approve the capital reduction resulting from cancellation of the Shares; and (ii) the ordinary resolution to immediately restore the Company’s issued share capital to its former amount and apply the credit arising in the Company’s books of accounts as a result of the capital reduction in paying up in full at par and issuing to the Offeror a number of new Shares equal to the number of Shares cancelled. All Independent Shareholders whose names appear in the register of members of the Company as at the Meeting Record Date shall be entitled to attend and vote, in person or by proxy, at the EGM, with respect to (iii) the ordinary resolution to approve the terms of the Service Agreement, including the Remuneration Package.

The special resolution described under (i) in the paragraph above will be passed if not less than three-fourths of the votes cast by Shareholders, present and voting in person or by proxy, at the EGM are in favour of the special resolution. The ordinary resolution described under (ii) in the paragraph above will be passed if more votes are cast in favour of the ordinary resolution than against it by the Shareholders, present and voting either in

person or by proxy, at the EGM. The ordinary resolution described under (iii) in the paragraph above will be passed if more votes are cast in favour of the ordinary resolution than against it by the Independent Shareholders, present and voting, either in person or by proxy, at the EGM.

At the EGM, a poll will be taken and each Shareholder/Independent Shareholder present and voting, either in person or by proxy, will be entitled to vote all of his/her/its Shares in favour (or against) the special resolution and/or the ordinary resolutions. Alternatively, such Shareholder/Independent Shareholder may vote some of their Shares in favour of the special resolution and/or the ordinary resolutions and any of the balance of their Shares against the special resolution and/or the ordinary resolutions (and vice versa).

Notice of the EGM is set out in Appendix V to this Scheme Document. The EGM will be held at 3:00 p.m. (Hong Kong time) (or so soon thereafter as the Court Meeting convened for the same day and place shall have been concluded or adjourned) on Monday, 24 March 2014 at Marina Room I, 2/F, The Excelsior Hotel, 281 Gloucester Road, Causeway Bay, Hong Kong.

Assuming that the conditions are fulfilled (or, as applicable, waived in whole or in part), it is expected that the Scheme will become effective on or before Monday, 7 April 2014. Further announcements will be made giving details of the results of the Court Meeting and EGM and, if all the Resolutions are passed at those meetings, the result of the hearing of the petition for the sanction of the Scheme by the Grand Court, the Record Date, the Effective Date, and the date of withdrawal of the listing of Shares on the Stock Exchange.

24 DEMAND FOR POLL AT EGM

At the EGM, the Chairman of the EGM will put resolutions to the vote by way of poll as required under article 72 of the Company's articles of association and by Rule 13.39(4) of the Listing Rules in the manner prescribed under Rule 13.39(5) of the Listing Rules.

25 SUMMARY OF ACTIONS TO BE TAKEN

A **pink** form of proxy for use at the Court Meeting and a **white** form of proxy for use at the EGM are enclosed with copies of this Scheme Document sent to Registered Owners of Shares.

Whether or not you are able to attend the Court Meeting and/or the EGM, the Shareholders are strongly urged to complete and sign the enclosed **pink** form of proxy in respect of the Court Meeting and the enclosed **white** form of proxy in respect of the EGM, in accordance with the instructions printed thereon, and to lodge them at the office of the Hong Kong share registrar of the Company, at Tricor Investor Services Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong. In order to be valid, the **pink** form of proxy for use at the Court Meeting should be lodged not later than 2:00 p.m. (Hong Kong time) on Saturday, 22 March 2014 or be handed to the Chairman of the Court Meeting at the Court Meeting who shall have absolute discretion as to whether or not to accept it, and the **white** form of proxy for use at the EGM should be lodged not later than 3:00 p.m. (Hong

Kong time) on Saturday, 22 March 2014. The completion and return of a form of proxy for the Court Meeting or the EGM will not preclude you from attending and voting in person at the relevant meeting. In such event, the returned form of proxy will be deemed to have been revoked.

In the case of any Beneficial Owner whose Shares are held by a Registered Owner (including a nominee, trustee, depositary or authorised custodian or third party), such Beneficial Owner should contact the Registered Owner and provide instructions as to the manner in which Shares of the Beneficial Owner should be voted at the Court Meeting and/or EGM. Such instructions, subject to the express requirements of the Registered Owner, should be given in advance of the latest time for the lodgment of proxies in respect of the Court Meeting and EGM.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting and/or EGM, you will still be bound by the outcome of such Court Meeting and/or EGM. You are therefore strongly urged to attend and vote at the Court Meeting and/or the EGM in person or by proxy.

For the purpose of determining the entitlements of Shareholders to attend and vote at the Court Meeting and the EGM, the register of members of the Company will be closed from Wednesday, 19 March 2014 to Monday, 24 March 2014 (both days inclusive) and during such period, no transfer of Shares will be effected. In order to qualify to vote at the Court Meeting and the EGM, all transfers accompanied by the relevant share certificates must be lodged with Tricor Investor Services Limited, the Hong Kong share registrar of the Company at 26/F Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. (Hong Kong time) on Tuesday, 18 March 2014.

An announcement will be made by the Company in relation to the results of the Court Meeting and the EGM and, if all the Resolutions are passed at those meetings, the result of the hearing of the petition for the sanction of the Scheme by the Grand Court, the Record Date, the Effective Date and the date of withdrawal of the listing of Shares on the Stock Exchange.

Petition Hearing in the Grand Court

SHAREHOLDERS (INCLUDING ANY BENEFICIAL OWNERS OF SUCH SHARES THAT GIVE VOTING INSTRUCTIONS TO A CUSTODIAN OR CLEARING HOUSE THAT SUBSEQUENTLY VOTES AT THE COURT MEETING) SHOULD NOTE THAT THEY ARE ENTITLED TO APPEAR IN PERSON OR BY COUNSEL AT THE GRAND COURT HEARING EXPECTED TO BE ON FRIDAY, 4 APRIL 2014 AT WHICH THE COMPANY WILL SEEK THE SANCTION OF THE GRAND COURT TO THE SCHEME.

26 RECOMMENDATION

In the letter from the Independent Financial Adviser set out in Part VI of this Scheme Document, the Independent Financial Adviser states that it considers the terms of the Proposal, the Scheme and the Service Agreement, including the Remuneration Package, to be fair and reasonable and advises the Independent Board Committee to recommend:

- (a) at the Court Meeting:
 - (i) the Independent Shareholders to vote in favour of the Scheme;
- (b) at the EGM:
 - (i) the Shareholders to vote in favour of:
 - (1) the special resolution to approve and give effect to the reduction of the issued share capital of the Company by cancelling and extinguishing the Shares; and
 - (2) the ordinary resolution to immediately restore the issued share capital of the Company to the same amount as immediately prior to the cancellation of the Shares by paying up in full at par such number of new Shares as is equal to the number of Shares cancelled as a result of the Scheme, credited as fully paid, for issuance to the Offeror; and
 - (ii) the Independent Shareholders to vote in favour of the ordinary resolution to approve the Service Agreement, including the Remuneration Package.

The full text of the letter from the Independent Financial Adviser is set out in Part VI of this Scheme Document.

The Independent Board Committee, having considered the terms of the Proposal, the Scheme and the Service Agreement, including the Remuneration Package, and having taken into account the opinion of the Independent Financial Adviser, and in particular the factors, reasons and recommendations set out in its letter in Part VI of this Scheme Document, considers that the terms of the Proposal, the Scheme and the Service Agreement, including the Remuneration Package, are fair and reasonable.

Accordingly, the Independent Board Committee recommends:

- (a) at the Court Meeting:
 - (i) the Independent Shareholders to vote in favour of the Scheme;

- (b) at the EGM:
- (i) the Shareholders to vote in favour of:
 - (1) the special resolution to approve and give effect to the reduction of the issued share capital of the Company by cancelling and extinguishing the Shares; and
 - (2) the ordinary resolution to immediately restore the issued share capital of the Company to the same amount immediately prior to the cancellation of the Shares by paying up in full at par such number of new Shares as is equal to the number of Shares cancelled as a result of the Scheme, credited as fully paid, for issuance to the Offeror; and
 - (ii) the Independent Shareholders to vote in favour of the ordinary resolution to approve the terms of the Service Agreement, including the Remuneration Package.

The full text of the letter from the Independent Board Committee is set out in Part V of this Scheme Document.

The Listing Rules Independent Board Committee, having considered the terms of the Service Agreement, considers that the terms of the Service Agreement are fair and reasonable and it is in the interest of the Company and the Shareholders as a whole. Accordingly, the Listing Rules Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution to approve the terms of the Service Agreement at the EGM.

The full text of the letter from the Listing Rules Independent Board Committee is set out in Part VII of this Scheme Document

27 FURTHER INFORMATION

Further information is set out in the Appendices to, and elsewhere in, this Scheme Document, all of which form part of this Explanatory Memorandum. Shareholders should rely only on the information contained in this Scheme Document. None of the Company, the Offeror, BNP Paribas or any of their respective affiliates has authorised anyone to provide you with information that is different from what is contained in this Scheme Document.

1. FINANCIAL SUMMARY

The following summary financial information for each of the three years ended 30 June 2011, 2012 and 2013 is extracted from the audited consolidated financial statements of the Magic Group as set forth in the annual reports of the Company for the three years ended 30 June 2011, 2012 and 2013. The unaudited summary financial information for the six months ended 31 December 2012 and 2013 is extracted from the unaudited consolidated interim financial statements of the Magic Group as set forth in the interim report of the Company for the six months ended 31 December 2012 and the unaudited interim results announcement of the Company for the six months ended 31 December 2013 published on 21 February 2014 (the “**Interim Results Announcement**”). The auditor’s reports issued by Ernst & Young in respect of Magic Group’s audited consolidated financial statements for each of the three years ended 30 June 2011, 2012 and 2013 did not contain any qualifications.

Consolidated Income Statement

	For the six	For the year ended 30 June		
	months ended	2013	2012	2011
	31 December	2013	2012	2011
	2013	2013	2012	2011
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
	(Unaudited)			
REVENUE	891,050	1,690,540	1,349,409	957,322
Cost of sales	<u>(230,212)</u>	<u>(404,395)</u>	<u>(316,399)</u>	<u>(221,572)</u>
Gross profit	660,838	1,286,145	1,033,010	735,750
Other income and gains	13,107	21,713	16,678	14,507
Selling and distribution expenses	(549,809)	(933,982)	(691,984)	(492,516)
Administrative expenses	(86,212)	(97,442)	(92,447)	(53,612)
Gain on derecognition of derivative financial instruments	<u>—</u>	<u>—</u>	<u>—</u>	<u>5,100</u>
PROFIT BEFORE TAX	37,924	276,434	265,257	209,229
Income tax expense	<u>(17,393)</u>	<u>(77,622)</u>	<u>(65,130)</u>	<u>(49,075)</u>
PROFIT FOR THE YEAR	<u>20,531</u>	<u>198,812</u>	<u>200,127</u>	<u>160,154</u>

	For the six months ended 31 December 2013 HK\$'000 (Unaudited)	For the year ended 30 June		
		2013 HK\$'000	2012 HK\$'000	2011 HK\$'000
Attributable to:				
Equity holders of the Company	27,322	207,095	204,513	160,523
Non-controlling interests	<u>(6,791)</u>	<u>(8,283)</u>	<u>(4,386)</u>	<u>(369)</u>
	<u>20,531</u>	<u>198,812</u>	<u>200,127</u>	<u>160,154</u>
Dividends paid [#]	<u>—</u>	<u>48,383</u>	<u>36,701</u>	<u>30,057</u>
Dividends per Share [#]	<u>—</u>	<u>HK3.0 cents</u>	<u>HK3.6 cents</u>	<u>HK3.6 cents</u>
EARNINGS PER SHARE				
ATTRIBUTABLE TO EQUITY				
HOLDERS OF THE COMPANY				<i>(Restated)</i>
Basic	<u>HK2.63 cents</u>	<u>HK20.35 cents</u>	<u>HK20.36 cents</u>	<u>HK16.94 cents</u>
Diluted	<u>HK2.62 cents</u>	<u>HK20.20 cents</u>	<u>HK20.23 cents</u>	<u>HK16.94 cents</u>

[#] On 26 September 2011, the Company made a payment of a final dividend of HK3.6 cents per Share for the year ended 30 June 2011 totalling approximately HK\$30,057,000 and a bonus issue of Shares on the basis of 1 new ordinary Share for every 5 existing ordinary Shares.

Other than (i) the consideration of approximately HK\$502,939,000 for the acquisition of Apex Rich Enterprises Limited on 29 July 2013 and (ii) a gain on disposal of a wholly-owned subsidiary, 廣東群禾藥業有限公司, of approximately HK\$1,306,000 for the six months ended 31 December 2013, no exceptional item was recorded in the financial statements of the Magic Group for the three financial years ended 30 June 2011, 2012 and 2013 and the six months ended 31 December 2013

2. UNAUDITED CONSOLIDATED INTERIM ACCOUNTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2013

The following financial information has been derived from the unaudited consolidated accounts of Magic for the six months ended 31 December 2013 as set forth in the interim results announcement of the Magic Group for the six months ended 31 December 2013 published on 21 February 2014.

Condensed Consolidated Income Statement

	<i>Notes</i>	For the six months ended 31 December	
		2013 (Unaudited) <i>HK\$'000</i>	2012 (Unaudited) <i>HK\$'000</i>
REVENUE	5	891,050	821,372
Cost of sales		<u>(230,212)</u>	<u>(192,857)</u>
Gross profit		660,838	628,515
Other income and gains	5	13,107	5,056
Selling and distribution costs		(549,809)	(458,989)
Administrative expenses		<u>(86,212)</u>	<u>(48,072)</u>
PROFIT BEFORE TAX	6	37,924	126,510
Income tax expense	7	<u>(17,393)</u>	<u>(30,050)</u>
PROFIT FOR THE PERIOD		<u>20,531</u>	<u>96,460</u>
Attributable to:			
Equity holders of the Company		27,322	100,037
Non-controlling interests		<u>(6,791)</u>	<u>(3,577)</u>
		<u>20,531</u>	<u>96,460</u>
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	9		
Basic		<u>HK2.63 cents</u>	<u>HK9.88 cents</u>
Diluted		<u>HK2.62 cents</u>	<u>HK9.80 cents</u>

Condensed Consolidated Statement of Comprehensive Income

	For the six months ended	
	31 December	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
PROFIT FOR THE PERIOD	20,531	96,460
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to income statement in subsequent periods:		
Exchange differences on translation of foreign operations	11,506	8,096
Realisation of exchange fluctuation reserve upon disposal of a Subsidiary	<u>23,778</u>	<u>—</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>55,815</u>	<u>104,556</u>
Attributable to:		
Equity holders of the Company	62,593	108,076
Non-controlling interests	<u>(6,778)</u>	<u>(3,520)</u>
	<u>55,815</u>	<u>104,556</u>

Condensed Consolidated Statement of Financial Position

	31 December	30 June
	2013	2013
	(Unaudited)	(Audited)
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS		
Property, plant and equipment	51,135	40,788
Prepaid land lease payments	68,285	63,670
Goodwill	464,546	14,549
Intangible assets	48,805	16,739
Deferred tax assets	2,804	432
Prepayments and deposits	<u>4,157</u>	<u>318,481</u>
Total non-current assets	<u>639,732</u>	<u>454,659</u>
CURRENT ASSETS		
Inventories	131,467	29,656
Trade receivables	364,258	419,387
Prepayments, deposits and other receivables	42,779	32,217
Tax recoverable	4,938	917
Cash and cash equivalents	<u>891,619</u>	<u>965,492</u>
	1,435,061	1,447,669
Assets of a subsidiary classified as held for sale	<u>—</u>	<u>1,212</u>
Total current assets	<u>1,435,061</u>	<u>1,448,881</u>

		31 December 2013	30 June 2013
		(Unaudited)	(Audited)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
CURRENT LIABILITIES			
Trade payables	<i>11</i>	128,124	64,766
Other payables and accruals		134,206	68,092
Dividend payable		31,137	—
Tax payable		<u>14,718</u>	<u>26,280</u>
		308,185	159,138
Liabilities directly associated with a subsidiary classified as held for sale		<u>—</u>	<u>3,035</u>
Total current liabilities		<u>308,185</u>	<u>162,173</u>
NET CURRENT ASSETS		<u>1,126,876</u>	<u>1,286,708</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,766,608</u>	<u>1,741,367</u>
NON-CURRENT LIABILITIES			
Deferred tax liabilities		<u>12,201</u>	<u>4,185</u>
Net assets		<u><u>1,754,407</u></u>	<u><u>1,737,182</u></u>
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	<i>12</i>	103,789	103,253
Reserves		<u>1,653,226</u>	<u>1,629,759</u>
		1,757,015	1,733,012
Non-controlling interests		<u>(2,608)</u>	<u>4,170</u>
Total equity		<u><u>1,754,407</u></u>	<u><u>1,737,182</u></u>

Notes to Condensed Consolidated Interim Financial Statements

1. CORPORATE INFORMATION

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

2. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements for the six months ended 31 December 2013 has been prepared in accordance with the applicable disclosure provisions of Appendix 16 to the Rules (“**Listing Rules**”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), and with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements of the Group for the year ended 30 June 2013. This interim financial statements should be read in conjunction with the 2012/2013 annual report.

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

The Group has applied the following new and revised HKFRSs issued by HKICPA that are relevant for the preparation of the Company’s consolidated financial statements for the first time in the current year:

Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
Amendments to HKFRSs	Annual Improvements to HKFRSs 2009–2011 Cycle
Amendments to HKFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10,	Consolidated Financial Statements, Joint Arrangements and
HKFRS 11 and HKFRS 12	Disclosure of Interests in Other Entities: Transition Guidance
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement

Other than as further described below, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

- (a) The HKFRS 10, HKFRS 11 and HKFRS 12 Amendments clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but rather provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. HKFRS 13 is applied prospectively and the adoption has had no material impact on the Group’s fair value measurements.

- (b) The HKAS 1 Amendments change the grouping of items presented in other comprehensive income (“OCI”). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, 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, the revaluation of land and buildings). The amendments have affected the presentation only and have had no impact on the financial position or performance of the Group.
- (c) The HKAS 36 Amendments remove the unintended disclosure requirement made by HKFRS 13 on the recoverable amount of a cash-generating unit which is not impaired. In addition, the amendments require the disclosure of the recoverable amounts for the assets or cash-generating units for which an impairment loss has been recognised or reversed during the reporting period, and expand the disclosure requirements regarding the fair value measurement for these assets or units if their recoverable amounts are based on fair value less costs of disposal. The amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided HKFRS 13 is also applied. The Group has early adopted the amendments in these financial statements. The amendments have had no impact on the financial position or performance of the Group.
- (d) *Annual Improvements 2009–2011 Cycle* issued in June 2012 sets out amendments to a number of standards. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments have had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- *HKAS 1 Presentation of Financial Statements*: Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

- *HKAS 32 Financial Instruments: Presentation*: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with HKAS 12 *Income Taxes*. The amendment removes existing income tax requirements from HKAS 32 and requires entities to apply the requirements in HKAS 12 to any income tax arising from distributions to equity holders.

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

HKFRS 9	<i>Financial Instruments</i> ²
Amendments to HKFRS 9 and HKFRS 7	<i>Mandatory Effective Date of HKFRS 9 and Transition Disclosures</i> ²
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	<i>Investment Entities</i> ¹
Amendments to HKAS 32	<i>Offsetting Financial Assets and Financial Liabilities</i> ¹
Amendments to HKAS 36	<i>Recoverable Amount Disclosures for Non-Financial Assets</i> ¹
Amendments to HKAS 39	<i>Novation of Derivatives and Continuation of Hedge Accounting</i> ¹
HK(IFRIC)-Int 21	<i>Levies</i> ¹

¹ Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.

² Effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

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

4. SEGMENT INFORMATION

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

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

Information about major customers

	For the six months ended	
	31 December	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Customer A*	89,953	N/A
Customer B**	N/A	138,170
Customer C**	N/A	77,851
	<u>89,953</u>	<u>216,021</u>

* Sales to Customer A during last Period amounted to less than 10% of the revenue. Accordingly, the sales amount was not presented in the above.

** Sales to Customer B, C during the Period amounted to less than 10% of the revenue. Accordingly, the sales amount was not presented in the above.

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts. An analysis of revenue, other income and gains is as follows:

	Note	For the six months ended	
		31 December	
		2013	2012
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Revenue			
Sale of goods		891,050	821,372
Other income and gains			
Bank interest income		8,097	5,056
Foreign exchange differences, net		3,704	—
Gain on disposal of a subsidiary	16	<u>1,306</u>	<u>—</u>
		<u>904,157</u>	<u>826,428</u>

6. PROFIT BEFORE TAX

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

	For the six months ended	
	31 December	
	2013	2012
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of inventories sold	230,212	192,857
Depreciation*	7,407	3,665
Amortisation of prepaid land lease payments	1,516	—
Amortisation of intangible assets*	5,204	2,046
Minimum lease payments under operating leases on land and buildings	7,759	2,995
Gain on disposal of a subsidiary	(1,306)	—
Employee benefit expense (including directors' remuneration)*		
Wages and Salaries	62,251	41,221
Retirement benefit scheme contributions	2,845	2,389
Equity-settled share award expenses	5,461	8,535
	<u>230,212</u>	<u>192,857</u>

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

	For the six months ended	
	31 December	
	2013	2012
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Depreciation	4,801	726
Amortisation of intangible assets	2,103	2,046
Employee benefit expenses	13,966	10,916
	<u>20,870</u>	<u>13,688</u>

7. 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 Period.

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "**Corporate Income Tax Law**") was approved and became effective on 1 January 2008. The Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%.

重慶朗禾化妝品有限公司, 重慶朗祺化妝品有限公司 and 西藏嘉燦商貿有限公司 were qualified as a 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 rate of 15%.

	For the six months ended	
	31 December	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current — Mainland China		
Charge for the Period	21,066	30,687
Deferred	<u>(3,673)</u>	<u>(637)</u>
Total tax charge for the Period	<u>17,393</u>	<u>30,050</u>

8. DIVIDEND

The Directors do not recommend any payment of interim dividend for the six months ended 31 December 2013 (corresponding period in 2012: HK1.2 cents per share). These financial statements do not reflect the interim dividend payable for the period ended 31 December 2012.

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

(a) Basic

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

	For the six months ended	
	31 December	
	2013	2012
Profit for the Period attributable to equity owners of the Company (in HK\$'000)	<u>27,322</u>	<u>100,037</u>
Weighted average number of ordinary shares in issue for basic earnings per share	<u>1,037,457,519</u>	<u>1,012,179,149</u>
Basic earnings per share (in HK cents)	<u>2.63</u>	<u>9.88</u>

(b) Diluted

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

	For the six months ended	
	31 December	
	2013	2012
Profit for the Period attributable to equity owners of the Company (<i>in HK\$'000</i>)	<u>27,322</u>	<u>100,037</u>
Weighted average number of ordinary shares in issue for basic earnings per share	1,037,457,519	1,012,179,149
Adjustment for share options granted on 27 September 2011 and exercised during the Period	3,744,374	8,258,315
Weighted average number of ordinary shares for diluted earnings per share	<u>1,041,201,893</u>	<u>1,020,437,464</u>
Diluted earnings per share (<i>in HK cents</i>)	<u>2.62</u>	<u>9.80</u>

10. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The Group generally grants credit terms of up to one year for certain amounts of products to its distributors at the beginning of each calendar year on a case-by-case basis. The Group generally requires such distributors to settle payment for these products at the end of each calendar year. No credit is provided for any further placement from these distributors and payment is required before any further delivery is made to them. The Group generally offers credit terms of up to 90 days to its retailers.

The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing. The Group's trade receivables mainly related to a few recognised and creditworthy customers.

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

	31 December	30 June
	2013	2013
	(Unaudited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 180 days	364,258	419,387
181 to 365 days	<u>—</u>	<u>—</u>
	<u>364,258</u>	<u>419,387</u>

11. TRADE PAYABLES

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

	31 December 2013 (Unaudited) <i>HK\$'000</i>	30 June 2013 (Audited) <i>HK\$'000</i>
Within 90 days	127,206	64,766
Over 90 days	<u>918</u>	<u>—</u>
	<u><u>128,124</u></u>	<u><u>64,766</u></u>

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

12. SHARE CAPITAL

The details of the authorised and issued share capital of the Company as at 31 December 2013 are as follows:

	31 December 2013 (Unaudited) <i>HK\$'000</i>
<i>Authorised:</i>	
2,000,000,000 ordinary shares of HK\$0.1 each	<u><u>200,000</u></u>
<i>Issued:</i>	
1,037,892,736 ordinary shares of HK\$0.1 each	<u><u>103,789</u></u>

The movement of the Company's authorised and issued share capital during the period from 30 June 2013 to 31 December 2013 are as follows:

	Number of ordinary shares	Nominal value of ordinary shares <i>HK\$'000</i>
<i>Authorised:</i>		
At 31 December 2013	<u><u>2,000,000,000</u></u>	<u><u>200,000</u></u>
<i>Issued:</i>		
At 30 June 2013	1,032,532,736	103,253
Exercise of share options in July 2013	<u>5,360,000</u>	<u>536</u>
At 31 December 2013	<u><u>1,037,892,736</u></u>	<u><u>103,789</u></u>

13. COMMITMENTS

As at 31 December 2013, the Group had no contracted commitments (30 June 2013: HK\$188,879,000).

14. CONTINGENT LIABILITIES

As at 31 December 2013, the Group had an arbitration with Hanbul Beaute Co. Ltd (“Hanbul”), the other parent company of a joint-venture company of the Group. The potential amount claimed by Hanbul is approximately HK\$15,000,000 (30 June 2013: Nil).

15. ACQUISITION OF SUBSIDIARY

On 29 July 2013, the Group acquired 100% of the issued share capital of Apex Rich Enterprises Limited and its subsidiaries (together “**Apex Group**”) at a consideration of RMB400,000,000 (equivalent to approximately HK\$502,939,000). Apex Group was engaged in the research and development of electronic technology, technical consultancy, transfer of technology and wholesaling and retailing in internet in China.

The fair value of the identifiable assets and liabilities of Apex Group acquired as at its date of acquisition, which has no significant difference from its carrying amount, is as follows:

	<i>HK\$'000</i>
Property, plant and equipment	47
Intangible assets	37,068
Inventories	22,121
Trade receivables	53,401
Prepayments, deposits and other receivables	24,194
Cash and bank balances	15,242
Trade and other payables	(89,864)
Deferred tax liabilities	(9,267)
	<hr/>
Net assets acquired	52,942
Goodwill	449,997
	<hr/>
Total consideration satisfied by cash	502,939
	<hr/>
Net cash outflow arising on acquisition:	
Cash consideration paid in previous periods	502,939
Cash and cash equivalents acquired	(15,242)
	<hr/>
	487,697
	<hr/>

The goodwill arising from the acquisition of Apex Group is attributable to the anticipated profitability of the distribution of the Group’s products in the new markets and the anticipated future operating synergies from the combination.

Apex Group contributed approximately profit of HK\$3,301,000 to the Group’s profit for the period between the date of acquisition and the end of the reporting period.

If the acquisition had been completed on 1 July 2013, total Group turnover for the period would have been approximately HK\$937,263,000, and profit for the reporting period would have been approximately HK\$21,191,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 July 2013, nor is it intended to be a projection of future results.

16. DISPOSAL OF A SUBSIDIARY

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, 廣東群禾藥業有限公司, at a cash consideration of RMB10,000,000 (approximately HK\$12,719,000). The disposal has been completed on 12 July 2013.

	<i>Note</i>	2013 <i>HK\$'000</i>
Net assets disposed of:		
Cash and bank balances		231
Prepayments and other receivables		14,280
Tax payable		(2,923)
Other payables and accruals		<u>(175)</u>
		11,413
Gain on disposal of a subsidiary	5	<u>1,306</u>
		<u>12,719</u>
Satisfied by:		
Cash		<u>12,719</u>

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

	2013 <i>HK\$'000</i>
Cash consideration	12,719
Cash and bank balances disposed of	<u>231</u>
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	<u>12,488</u>

3. AUDITED CONSOLIDATED ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2013

The following financial information has been derived from the audited consolidated accounts of the Magic Group for the year ended 30 June 2013 as set forth in the annual report of the Magic Group for the year ended 30 June 2013.

Consolidated Income Statement*Year ended 30 June 2013*

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

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

Consolidated Statement of Comprehensive Income*Year ended 30 June 2013*

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

Consolidated Statement of Financial Position*30 June 2013*

	<i>Notes</i>	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment	<i>14</i>	40,788	32,344
Prepaid land lease payments	<i>15</i>	63,670	61,564
Goodwill	<i>16</i>	14,549	14,549
Intangible asset	<i>17</i>	16,739	20,445
Deferred tax assets	<i>18</i>	432	415
Prepayments and deposits	<i>22</i>	<u>318,481</u>	<u>2,467</u>
Total non-current assets		<u>454,659</u>	<u>131,784</u>
CURRENT ASSETS			
Inventories	<i>20</i>	29,656	26,967
Trade receivables	<i>21</i>	419,387	250,497
Prepayments, deposits and other receivables	<i>22</i>	32,217	109,010
Tax recoverable		917	895
Cash and cash equivalents	<i>23</i>	<u>965,492</u>	<u>1,104,202</u>
		1,447,669	1,491,571
Assets of a subsidiary classified as held for sale	<i>26</i>	<u>1,212</u>	<u>—</u>
Total current assets		<u>1,448,881</u>	<u>1,491,571</u>

APPENDIX I

FINANCIAL INFORMATION

	<i>Notes</i>	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
CURRENT LIABILITIES			
Trade payables	24	64,766	63,825
Other payables and accruals	25	68,092	37,797
Tax payable		<u>26,280</u>	<u>23,998</u>
		159,138	125,620
Liabilities directly associated with a subsidiary classified as held for sale	26	<u>3,035</u>	<u>—</u>
Total current liabilities		<u>162,173</u>	<u>125,620</u>
NET CURRENT ASSETS		<u>1,286,708</u>	<u>1,365,951</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,741,367</u>	<u>1,497,735</u>
NON-CURRENT LIABILITIES			
Deferred tax liabilities	18	<u>4,185</u>	<u>5,111</u>
Net assets		<u><u>1,737,182</u></u>	<u><u>1,492,624</u></u>
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	27	103,253	100,890
Reserves	29(a)	<u>1,629,759</u>	<u>1,379,456</u>
		1,733,012	1,480,346
Non-controlling interests		<u>4,170</u>	<u>12,278</u>
Total equity		<u><u>1,737,182</u></u>	<u><u>1,492,624</u></u>

Consolidated Statement of Changes in Equity
Year ended 30 June 2013

	Attributable to equity holders of the Company											Non-controlling interests	Total equity
	Issued capital	Share premium account	Share award reserve	Share option reserve	Merger reserve	Capital reserve	Statutory reserve funds	Retained profits	Exchange fluctuation reserve	Total			
	HK\$'000	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 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	
	Attributable to equity holders of the Company											Non-controlling interests	Total equity
	Issued capital	Share premium account	Share award reserve	Share option reserve	Merger reserve	Capital reserve	Statutory reserve funds	Retained profits	Exchange fluctuation reserve	Total			
	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:

- (a) 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.
- (b) 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*

	<i>Notes</i>	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
CASH FLOWS FROM			
OPERATING ACTIVITIES			
Profit before tax		276,434	265,257
Adjustments for:			
Bank interest income	6	(14,078)	(6,836)
Depreciation	7	4,838	2,845
Amortisation of prepaid land lease payments	7	1,487	—
Amortisation of an intangible asset	7	4,121	4,091
Equity-settled share award expenses	28	17,070	22,767
Equity-settled share option expenses	28	—	13,609
Impairment of goodwill	16	—	1,223
		<u>289,872</u>	<u>302,956</u>
Increase in inventories		(2,689)	(12,122)
Increase in trade receivables		(168,890)	(69,249)
Decrease/(increase) in prepayments, deposits and other receivables		71,809	(13,278)
Increase in trade payables		941	18,424
Increase in other payables and accruals		30,414	3,486
Exchange realignment		<u>11,818</u>	<u>5,052</u>
Cash generated from operations		233,275	235,269
Bank interest received		14,078	6,836
Overseas tax paid		<u>(73,493)</u>	<u>(64,523)</u>
Net cash flows from operating activities		<u>173,860</u>	<u>177,582</u>

	<i>Notes</i>	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	<i>14</i>	(10,104)	(14,311)
Proceeds from disposal of property, plant and equipment		94	—
Increase in prepaid land lease payments	<i>15</i>	(2,207)	(26,940)
Deposits paid for acquisition of subsidiaries	<i>22</i>	(314,379)	—
Decrease/(increase) in non-pledged deposits with original maturity of over three months when acquired	<i>23</i>	<u>34,790</u>	<u>(2,422)</u>
Net cash flows used in investing activities		<u>(291,806)</u>	<u>(43,673)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of shares of the Company		47,898	14,209
Dividend paid		<u>(48,947)</u>	<u>(30,057)</u>
Net cash flows used in financing activities		<u>(1,049)</u>	<u>(15,848)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(118,995)	118,061
Cash and cash equivalents at beginning of year		981,533	855,157
Effect of foreign exchange rate changes, net		<u>15,305</u>	<u>8,315</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u><u>877,843</u></u>	<u><u>981,533</u></u>

	<i>Notes</i>	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	467,297	722,192
Cash and bank balances included in a subsidiary classified as held for sale	26	230	—
Non-pledged time deposits with original maturity of over three months when acquired	23	87,879	122,669
Non-pledged time deposits with original maturity of less than three months when acquired	23	<u>410,316</u>	<u>259,341</u>
Cash and cash equivalents as stated in the consolidated statement of financial position		965,722	1,104,202
Less: Non-pledged time deposits with original maturity of over three months when acquired	23	<u>(87,879)</u>	<u>(122,669)</u>
Cash and cash equivalents as stated in the consolidated statement of cash flows		<u><u>877,843</u></u>	<u><u>981,533</u></u>

Statement of Financial Position*30 June 2013*

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

Notes to Financial Statements

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.

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.

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

- 1 Effective for annual periods beginning on or after 1 January 2013
- 2 Effective for annual periods beginning on or after 1 January 2014
- 3 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.

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.

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.

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).

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Customer A*	N/A	241,445
Customer B*	<u>N/A</u>	<u>137,769</u>
	<u>N/A</u>	<u>379,214</u>

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

7. PROFIT BEFORE TAX

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

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

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

** 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 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
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 (<i>note 28</i>)	12,895	20,447
Equity-settled share option expenses (<i>note 28</i>)	—	544
	<u>18,883</u>	<u>25,824</u>

	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 2013

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

	<u>592</u>	<u>5,308</u>	<u>88</u>	<u>12,895</u>	<u>—</u>	<u>18,883</u>
--	------------	--------------	-----------	---------------	----------	---------------

	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
	<u>882</u>	<u>3,878</u>	<u>73</u>	<u>20,447</u>	<u>544</u>	<u>25,824</u>

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included 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 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
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
	<u>914</u>	<u>3,530</u>

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
	<u>1</u>	<u>2</u>

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).

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	78,669	65,284
Deferred (<i>note 18</i>)	<u>(1,047)</u>	<u>(154)</u>
Total tax charge for the year	<u>77,622</u>	<u>65,130</u>

A reconciliation of the tax expense applicable to profit before tax at the statutory tax rates to the tax expense at the Group's effective tax rate is as follows:

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

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

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.

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 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Earnings:		
Profit for the year attributable to equity holders of the Company	<u>207,095</u>	<u>204,513</u>
	<i>'000</i>	<i>'000</i>
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,017,555	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	<u>7,816</u>	<u>6,552</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>1,025,371</u>	<u>1,010,792</u>

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures, equipment and motor vehicles HK\$'000	Leasehold improvements HK\$'000	Construction in progress HK\$'000	Total HK\$'000
30 June 2013						
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	<u>14,902</u>	<u>17,578</u>	<u>11,338</u>	<u>5,936</u>	<u>2,021</u>	<u>51,775</u>
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	<u>893</u>	<u>3,979</u>	<u>5,010</u>	<u>1,105</u>	<u>—</u>	<u>10,987</u>
Net book value:						
At 30 June 2013	<u>14,009</u>	<u>13,599</u>	<u>6,328</u>	<u>4,831</u>	<u>2,021</u>	<u>40,788</u>

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).

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

Included in “buildings” are certain properties of RMB5,268,000 (equivalent to HK\$6,465,000), which were transferred from “deposits and other receivables” during the year ended 30 June 2012 (note 22).

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

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
Cost		
Balance at beginning of year and end of year	<u>15,772</u>	<u>15,772</u>
Accumulated impairment losses		
Balance at beginning of year	(1,223)	—
Impairment loss recognised in the year	<u>—</u>	<u>(1,223)</u>
Balance at end of year	<u>(1,223)</u>	<u>(1,223)</u>
Carrying amount		
Balance at 30 June	<u><u>14,549</u></u>	<u><u>14,549</u></u>

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.

17. INTANGIBLE ASSET

Group

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

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	<u>121</u>
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	<u>104</u>
At 30 June 2013	<u><u>4,185</u></u>

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>)	<u>(868)</u>
At 30 June 2012 and 1 July 2012	415
Deferred tax credited to the consolidated income statement (<i>note 10</i>)	<u>17</u>
At 30 June 2013	<u><u>432</u></u>

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.

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	116,540	116,540

The amounts due from subsidiaries included in the Company's current assets are unsecured, interest-free and are repayable on demand.

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

Name	Place of incorporation/ registration and operations	Nominal value of issued/ paid-up share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2013	2012	
Directly held					
Magic Holdings	The British Virgin Islands (the "BVI")	US\$22,883	100	100	Investment holding
Indirectly held					
廣東群禾藥業有限公司 ("Guangdong Qunhe")** (Note (1))	PRC/Mainland China	RMB10,000,000	100	100	Trading of facial masks and other skincare products
重慶朗禾化妝品有限公司 ("朗禾")**	PRC/Mainland China	RMB5,000,000	100	100	Trading of facial masks and other skincare products
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

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	
Indirectly held (continued)					
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
西藏嘉燦商貿有限公司 ("西藏嘉燦")*	PRC/Mainland China	RMB5,000,000	100	N/A	Not yet commenced business
Magic-Hanbul Holdings Limited ("MG BVI")	The BVI/Hong Kong	US\$2,950,000	51	51	Investment holding
Magic-Hanbul International Limited ("MG HK")	Hong Kong	HK\$23,000,000	51	51	Investment holding
廣州美即韓佛化妝品有限公司 ("GZ MG PRC")*	PRC/Mainland China	RMB20,000,000	51	51	Sale of skincare products and not yet commenced business

* Registered as 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.

20. INVENTORIES

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

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.

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	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
1 to 180 days	419,387	249,108
Over 180 days	<u>—</u>	<u>1,389</u>
	<u><u>419,387</u></u>	<u><u>250,497</u></u>

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

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

The Group's trade receivables mainly relate to sales made to recognised and creditworthy customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a customer that has a good track record with the Group. Based on past experience, the directors are of the opinion that no provision for impairment is necessary in respect of the balance as there has not been a significant change in credit quality and the balance is still considered fully recoverable.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

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.

23. CASH AND CASH EQUIVALENTS

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

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	<u>64,766</u>	<u>63,825</u>

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

25. OTHER PAYABLES AND ACCRUALS

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

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.

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	<u>230</u>
Assets of a subsidiary classified as held for sale	<u>1,212</u>
Liabilities	
Other payables and accruals	(119)
Tax payable	<u>(2,916)</u>
Liabilities directly associated with a subsidiary classified as held for sale	<u>(3,035)</u>
Equity	
Exchange reserve recognised directly in equity associated with a subsidiary classified as held for sale	<u>(23,779)</u>

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	<u>200,000</u>	<u>200,000</u>
Issued and fully paid:		
1,032,532,736 (2012: 1,008,902,736) ordinary shares of HK\$0.1 each	<u>103,253</u>	<u>100,890</u>

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

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

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.

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.

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)

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.

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)

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 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)
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).

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.

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	<u>2.027</u>	<u>(7,010)</u>
At 30 June 2012 and 1 July 2012	2.027	28,990
Exercised during the year	<u>2.027</u>	<u>(23,630)</u>
At 30 June 2013	<u><u>2.027</u></u>	<u><u>5,360</u></u>

- * 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 '000	Exercise price* HK\$ per share	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.

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.

(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>)	<u>16,158</u>	<u>—</u>	<u>(2,650)</u>	<u>—</u>	<u>13,508</u>
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>)	<u>54,462</u>	<u>—</u>	<u>(8,927)</u>	<u>—</u>	<u>45,535</u>
At 30 June 2013	<u>604,388</u>	<u>116,361</u>	<u>2,032</u>	<u>16,816</u>	<u>739,597</u>

* 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.

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

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

* 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).

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:

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

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.

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

Financial liabilities at amortised cost

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

Company*Financial assets — loans and receivables*

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

Financial liabilities at amortised cost

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

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.

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>
2013			
RMB	1%	8,196	3,575
RMB	(1%)	(8,196)	(3,575)
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.

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 HK\$'000	Company Increase/ (decrease) in net profit HK\$'000
2013			
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)
2012			
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.

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

Assets, Liabilities and non-controlling Interests

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

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.

4. INDEBTEDNESS STATEMENT

As at 31 December 2013, the Magic Group did not have any outstanding indebtedness. As at the Latest Practicable Date, the Magic Group had contingent liabilities of approximately HK\$15,000,000 in relation to the arbitration in which a joint venture partner of the Company, Hanbul Beaute Co., Limited was involved in. Save as disclosed in this paragraph, the Magic Group had not given any guarantee, and had no other material contingent liabilities or outstanding mortgages, charges, loan capital issued and outstanding or agreed to be issued, bank loans and overdrafts or other similar indebtedness as at the close of business on 31 December 2013.

5. MATERIAL CHANGES

The directors of the Company confirm that there is no material change in the financial or trading position or outlook of the Magic Group since 30 June 2013, being the date to which the latest published audited financial statements of the Magic Group were made up and up to and including the Latest Practicable Date, save for (a) significant increase in property, plant and equipment mainly due to the addition of fixed assets used in the factory of the Company; (b) significant increase in goodwill, intangible asset, inventory, other payables and accruals, cost of sales and selling and distribution expenses mainly due to the consolidation of the results of Apex Rich Enterprises Limited ("**Apex**"); (c) significant decrease in prepayments and deposits mainly attributable to the completion of the Baili Acquisition on 29 July 2013; (d) significant increase in trade payable; (e) significant increase in administrative expenses per month for the six months ended 31 December 2013 as compared to the administrative expenses

per month for the year ended 30 June 2013 mainly due to (i) the consolidation of the administration expense of Apex; (ii) the increase in salary expenses of the Magic Group; (iii) the increase in social insurance and staff welfare expenses due to the increase in the number of employees of the Magic Group; and (iv) the increase in legal and professional fee incurred for corporate activities; and (f) the contingent liabilities arising from an arbitration with Hanbul Beaute Co., Ltd..

1. RESPONSIBILITY STATEMENTS

The information contained in this Scheme Document relating to the Magic Group has been supplied by the Company. The issue of this Scheme Document has been approved by the directors of the Company, who jointly and severally accept full responsibility for the accuracy of the information contained in this Scheme Document (other than that relating to the Offeror Group), and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Scheme Document (other than those expressed by the directors of the Offeror) have been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document, the omission of which would make any statement in this Scheme Document misleading.

The information contained in this Scheme Document relating to the Offeror Group has been supplied by the Offeror. The issue of this Scheme Document has been approved by the directors of the Offeror, who jointly and severally accept full responsibility for the accuracy of the information contained in this Scheme Document (other than that relating to the Magic Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Scheme Document (other than those expressed by the directors of the Company) have been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document, the omission of which would make any statement in this Scheme Document misleading.

2. SHARE CAPITAL

As at the Latest Practicable Date:

- (a) the authorised share capital of the Company was HK\$200,000,000 divided into 2,000,000,000 Shares;
- (b) the issued share capital of the Company was HK\$103,789,273.6 divided into 1,037,892,736 Shares;
- (c) 5,360,000 Shares were issued by the Company since 30 June 2013, the end of the last financial year of the Company;
- (d) all of the Shares rank *pari passu* in all respects as regards rights to capital, dividends and voting;
- (e) there were 15,442,669 Shares held by the Share Award Plan Trustee under the Share Award Plan, of which 11,833,490 were Awarded Shares and 1,604,684 Awarded Shares were granted to Mr. Tang Siu Kun Stephen, 2,076,650 Awarded Shares were granted to Mr. She, 639,776 Awarded Shares were granted to Mr. Luo Yao Wen, each an executive director of the Company, 335,620 Awarded Shares were granted to the spouse of Mr. She, 52,440 Awarded Shares were granted to a sister of Mr. She and 377,572 Awarded Shares were granted to the spouse of Mr. Luo Yao Wen. The remaining 6,746,748 Awarded Shares of the 11,833,490 Awarded Shares were granted to other members of senior management and employees of the Magic Group. As at the Latest Practicable Date, the Share Award Plan Trustee also held 3,609,179

Shares (i.e. the Other Distributions) received by it as a result of a scrip dividend scheme and bonus issue by the Company in December 2010 and December 2011 respectively. These 3,609,179 Shares were held by the Share Award Plan Trustee for and on behalf of the respective grantees until the relevant vesting dates, among which 509,890 Shares were held on behalf of Mr. Tang Siu Kun Stephen, 659,859 Shares were held on behalf of Mr. She, 203,288 Shares were held on behalf of Mr. Luo Yao Wen, each an executive director of the Company, 106,644 Shares were held on behalf of the spouse of Mr. She, 16,663 Shares were held on behalf of a sister of Mr. She and 119,973 Shares were held on behalf of the spouse of Mr. Luo Yao Wen. The remaining 1,992,862 Shares of the 3,609,179 Shares were held on behalf of other members of senior management and employees of the Magic Group. If any Awarded Shares are vested in the grantees in accordance with the terms of the Share Award Plan prior to the Record Date, the resulting Shareholders from the vesting of the Awarded Shares will be subject to and eligible to participate in the Scheme. For further details on the Awarded Shares, please refer to the section headed “11. Awarded Shares” in Part VIII — Explanatory Memorandum of this Scheme Document; and

- (f) the Company did not have in issue any warrants, options, derivatives, convertible securities or other securities convertible into Shares.

3. MARKET PRICE

The table below sets out the closing price of the Shares on the Stock Exchange on (i) the last Business Day of each of the calendar months during the period commencing six months preceding the Pre-Announcement Date, (ii) the Last Trading Day, (iii) the last Business Day of each of the calendar months following the Last Trading Day and before the Latest Practicable Date, and (iv) the Latest Practicable Date:

	Closing price for each Share (HK\$)
28 February 2013	3.08
28 March 2013	3.18
30 April 2013	4.19
31 May 2013	4.68
28 June 2013	4.80
26 July 2013 (last Business Day preceding commencement of the offer period on 2 August 2013)	4.60
9 August 2013 (Last Trading Day)	5.05
30 August 2013	6.09
30 September 2013	6.04
31 October 2013	6.12
29 November 2013	6.13
31 December 2013	6.14
25 February 2014 (Latest Practicable Date)	6.22

The lowest and highest closing prices of the Shares as quoted on the Stock Exchange during the period commencing six months preceding the Pre-Announcement Date and ending on the Latest Practicable Date were HK\$2.91 per Share on 4 March 2013 and HK\$6.27 per Share from 13 January 2014 to 15 January 2014, respectively.

The Cancellation Price of HK\$6.30 per Share represents a premium of approximately 24.75% over the closing price of HK\$5.05 per Share as quoted on the Stock Exchange on 9 August 2013 (being the Last Trading Day).

4. DISCLOSURE OF INTERESTS

For the purpose of this paragraph, (i) “interested” and “interests” have the same meanings as given to them in the appropriate part of the SFO; (ii) the “Offer Period” means the period from 2 August 2013 (being the date of which the Company first announced the possibility of an offer for all the Shares of the Company) to the Effective Date, both dates inclusive; and (iii) the “Disclosure Period” means the period beginning from the date which is six months prior to the commencement of the Offer Period (from 2 August 2013) and ending with the Latest Practicable Date, both dates inclusive.

(a) Interests and dealings in Shares

- (i) As at the Latest Practicable Date, the Offeror, persons acting in concert with the Offeror and Shareholders who will abstain from voting on the Scheme had the following interests in Shares:

Shareholders	As at the Latest Practicable Date	
	Number of Shares	%
Offeror	—	—
Relevant members of BNP Paribas group	<u>132,000</u>	<u>0.01</u>
Aggregate number of Shares of the Offeror and the Offeror Concert Parties	132,000	0.01
Mr. She ^{1, 3}	122,162,633	11.77
Share Award Plan Trustee ^{2, 3}	<u>15,442,669</u>	<u>1.49</u>
Aggregate number of Shares not voting on the Scheme	<u><u>137,737,302</u></u>	<u><u>13.27</u></u>

Notes:

- (1) As at the Latest Practicable Date, SPVCo, a company wholly-owned by Mr. She, was the beneficial owner of 121,994,079 Shares. Wu Xiao Qing, the spouse of Mr. She, was the beneficial owner of 168,554 Shares. Mr. She was therefore deemed to be interested in the Shares which SPVCo and Wu Xiao Qing were interested in under the SFO.

- (2) As at the Latest Practicable Date, the Share Award Plan Trustee held 15,442,669 Shares, of which 11,833,490 were Awarded Shares, and 1,604,684 Awarded Shares were granted to Mr. Tang Siu Kun Stephen, 2,076,650 Awarded Shares were granted to Mr. She, and 639,776 Awarded Shares were granted to Mr. Luo Yao Wen, each an executive director of the Company, 335,620 Awarded Shares were granted to the spouse of Mr. She, 52,440 Awarded Shares were granted to a sister of Mr. She and 377,572 Awarded Shares were granted to the spouse of Mr. Luo Yao Wen. The remaining 6,746,748 Awarded Shares held by the Share Award Plan Trustee were granted to other members of senior management and employees of the Magic Group. The Share Award Plan Trustee also held 3,609,179 Shares (i.e. the Other Distributions) received by it as a result of a scrip dividend scheme and bonus issue by the Company in December 2010 and December 2011 respectively. These 3,609,179 Shares were held by the Share Award Plan Trustee for and on behalf of the respective grantees until the relevant vesting dates, among which 509,890 Shares were held on behalf of Mr. Tang Siu Kun Stephen, 659,859 Shares were held on behalf of Mr. She, 203,288 Shares were held on behalf of Mr. Luo Yao Wen, each an executive director of the Company, 106,644 Shares were held on behalf of the spouse of Mr. She, 16,663 Shares were held on behalf of a sister of Mr. She and 119,973 Shares were held on behalf of the spouse of Mr. Luo Yao Wen. The remaining 1,992,862 Shares of the 3,609,179 Shares were held on behalf of other members of senior management and employees of the Magic Group. All of the 15,442,669 Shares were held by the Share Award Plan Trustee for and on behalf of the respective grantees until the relevant vesting dates.
- (3) As Mr. She is interested in the Service Agreement, and the completion of the Scheme is conditional upon the passing of an ordinary resolution by the Independent Shareholders at an extraordinary general meeting of the Company to approve the terms of the Service Agreement, including the Remuneration Package, to avoid a conflict of interest, the Offeror, Mr. She and his associates (including the SPVCo, his spouse and the Share Award Plan Trustee) and any other party acting in concert with any of them, will abstain from voting on the Scheme at the Court Meeting and on the Service Agreement, including the Remuneration Package, at the Company's extraordinary general meeting.

As at the Latest Practicable Date, there were 15,442,669 Shares held by the Share Award Plan Trustee under the Share Award Plan, of which 11,833,490 were Awarded Shares and 1,604,684 Awarded Shares were granted to Mr. Tang Siu Kun Stephen, 2,076,650 Awarded Shares were granted to Mr. She, 639,776 Awarded Shares were granted to Mr. Luo Yao Wen, each an executive director of the Company, 335,620 Awarded Shares were granted to the spouse of Mr. She, 52,440 Awarded Shares were granted to a sister of Mr. She and 377,572 Awarded Shares were granted to the spouse of Mr. Luo Yao Wen. The remaining 6,746,748 Awarded Shares of the 11,833,490 Awarded Shares were granted to other members of senior management and employees of the Magic Group. The Share Award Plan Trustee also held 3,609,179 Shares (i.e. the Other Distributions) received by it as a result of a scrip dividend scheme and bonus issue by the Company in December 2010 and December 2011 respectively. These 3,609,179 Shares were held by the Share Award Plan Trustee for and on behalf of the respective grantees until the relevant vesting dates, among which 509,890 Shares were held on behalf of Mr. Tang Siu Kun Stephen, 659,859 Shares were held on behalf of Mr. She, 203,288 Shares were held on behalf of Mr. Luo Yao Wen, each an executive director of the Company, 106,644 Shares were held on behalf of the spouse of Mr. She, 16,663 Shares were held on behalf of a sister of Mr. She and 119,973 Shares were held on behalf of the spouse of Mr. Luo Yao Wen. The remaining 1,992,862 Shares of the 3,609,179

Shares were held on behalf of other members of senior management and employees of the Magic Group. All of the 15,442,669 Shares were held by the Share Award Plan Trustee for and on behalf of the respective grantees until the relevant vesting dates.

The table below sets out details of Awarded Shares (including the Other Distributions) held by the Share Award Plan Trustee for and on behalf of the directors of the Company as at the Latest Practicable Date:

Grantees	Number of Awarded Shares (including the Other Distributions)
Mr. Tang Siu Kun, Stephen	2,114,574
Mr. She	2,736,509
Mr. Luo Yaowen	<u>843,064</u>
Total	<u><u>5,694,147</u></u>

- (ii) There have been no dealings in Shares during the Disclosure Period conducted by the director(s) of the Company.
- (iii) The following are the dealings in ordinary shares during the Disclosure Period conducted by the BNP Paribas group (other than exempt principal traders and exempt fund managers activities), but excluding dealings on an agency or non-discretionary basis:

Party	Dealing	Trade Date	Number of Shares	Average Dealing Price per Share (HK\$)
Shinhan BNP Paribas	Buy	26 February 2013	49,000	3.1269
Asset Management (Hong Kong) Limited	Sell	25 April 2013	37,000	3.8889

- (iv) Save as disclosed in paragraph 4(a)(iii) of this section, none of the Offeror, its directors and the parties acting in concert with the Offeror had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares during the Disclosure Period.

- (v) As at the Latest Practicable Date, no subsidiary of the Company, pension fund of the Company or of any subsidiary of the Company or adviser of the Company as specified in class (2) of the definition of associate under the Takeovers Code (other than exempt principal traders) owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares. During the period commencing on the Pre-Announcement Date and up to the Latest Practicable Date, no such person had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares, but excluding dealings on an agency or non-discretionary basis.
- (vi) As at the Latest Practicable Date, no person had any indemnity or other arrangements of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror (or with its associates or any person acting in concert with any of them) and save as disclosed in paragraphs 4(a)(i) and 4(a)(iii) of this section, no such person owned or controlled any Shares or dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares during the Disclosure Period.
- (vii) As at the Latest Practicable Date, no person had any indemnity or other arrangements of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company (or with any person who is an associate of the Company by virtue of class (1) to (4) of the definition of “associate” under the Takeovers Code). During the period commencing on the Pre-Announcement Date and up to the Latest Practicable Date, no such person had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares.

- (viii) As at the Latest Practicable Date, save as disclosed in paragraph 4(a)(i) of this section and the table below, none of the Directors had any interest in the Shares or any convertible securities, warrants, options or derivatives in respect of the Shares:

Director	Number of Shares held	Approximate percentage of total issued share capital of the Company (%)
Mr. She ⁽¹⁾	122,162,633	11.77
Mr. Tang Siu Kun Stephen ^{(2), (5)}	94,084,433	9.06
Mr. Luo Yao Wen ^{(3), (5)}	38,039,659	3.67
Mr. Sun Yan ^{(4), (5)}	360,000	0.03
Mr. Yan Kam Tong ^{(4), (5)}	360,000	0.03
Professor Yang Rude ^{(4), (5)}	130,000	0.01

Notes:

- (1) As at the Latest Practicable Date, SPVCo, a company wholly-owned by Mr. She, was the beneficial owner of 121,994,079 Shares. Wu Xiao Qing, the spouse of Mr. She, was the beneficial owner of 168,554 Shares. Mr. She was therefore deemed to be interested in the Shares which SPVCo and Wu Xiao Qing were interested in under the SFO.
 - (2) As at the Latest Practicable Date, Mr. Tang Siu Kun Stephen directly and beneficially owned 3,690,362 Shares. Mr. Tang Siu Kun Stephen wholly owned MG Company Limited and Charm Magna Limited, which were the beneficial owners of 63,301,170 Shares and 27,092,901 Shares, respectively. Mr. Tang Siu Kun Stephen was therefore deemed to be interested in the Shares which MG Company Limited and Charm Magna Limited were interested in under the SFO.
 - (3) As at the Latest Practicable Date, Mr. Luo Yao Wen wholly owned Multiple Gains Investments Limited, which was the beneficial owner of 37,647,787 Shares. Wen Yan Juan, the spouse of Mr. Luo Yao Wen, was the beneficial owner of 391,872 Shares. Mr. Luo Yao Wen was therefore deemed to be interested in the Shares which Multiple Gains Investments Limited and Wen Yan Juan were interested in under the SFO.
 - (4) Mr. Sun Yan is a non-executive director of the Company. Each of Mr. Yan Kam Tong and Professor Yang Rude is an independent non-executive director of the Company.
 - (5) Each of Mr. Tang Siu Kun Stephen, Mr. Luo Yao Wen, Mr. Sun Yan, Mr. Yan Kam Tong and Professor Yang Rude intend, in respect of his own beneficial shareholding in the Shares, to vote in favour of the Scheme at the Court Meeting and the EGM.
- (ix) Save as disclosed in paragraph 4(a)(i) of this section, as at the Latest Practicable Date the Offeror did not own or control any Shares or convertible securities, warrants, options or derivatives in respect of the Shares.

- (x) Save as disclosed in paragraph 4(a)(i) of this section, as at the Latest Practicable Date, none of the directors of the Offeror nor any parties acting in concert with the Offeror owned or controlled any Shares or convertible securities, warrants, options or derivatives in respect of the Shares.
- (xi) As at the Latest Practicable Date, none of the Offeror, the concert parties of the Offeror (other than those members of BNP Paribas group that are conducting exempt principal traders and exempt fund managers activities), the Company or the directors of the Company had borrowed or lent any Shares or convertible securities, warrants, options or derivatives in respect of the Shares.
- (xii) During the period commencing on the Pre-Announcement Date and up to the Latest Practicable Date, no fund managers connected with the Company who managed funds on a discretionary basis had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares.
- (xiii) Save as disclosed in paragraphs 4(a)(i) and 4(a)(iii) of this section, as at the Latest Practicable Date, none of the non-exempt discretionary fund managers and principal traders connected with the Offeror owned or controlled any Shares or dealt for value in any Shares or convertible securities, warranties, options or derivatives in respect of Shares during the Disclosure Period.

(b) Interests and dealings in the Offeror's shares

None of the directors of the Company, the Company, the Founders, Baring, Greenwoods and Atlantis had any interest in the Offeror's shares or convertible securities, warrants, options or derivatives in respect of the Offeror's shares as at the Latest Practicable Date and none of the directors of the Company, the Company, the Founders, Baring, Greenwoods and Atlantis dealt for value in any such shares or convertible securities, warrants, options or derivatives in respect of the Offeror's shares during the Disclosure Period.

(c) Arrangements with the Offeror and its concert parties in respect of the Proposal and the Scheme

As at the Latest Practicable Date:

- (i) there were no indemnities or other arrangements of the kind referred to in Note 8 to Rule 22 of the Takeovers Code between the Offeror or any person acting in concert with the Offeror and any other person;
- (ii) there was no agreement or arrangement to which the Offeror is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a condition to the Proposal and the Scheme;

- (iii) there was no agreement, arrangement or understanding between the Offeror and any other person in relation to the transfer, charge or pledge of the Shares to be issued to the Offeror (or any of its wholly-owned subsidiaries) upon completion of the Proposal and the Scheme; and
- (iv) the Offeror has no intention to transfer, charge or pledge any securities in the Company acquired pursuant to the Proposal and the Scheme to any other person, or has no agreement, arrangement or understanding with any third party to do so.

(d) Other interests

As at the Latest Practicable Date:

- (i) no benefit was or would be paid/given to any director of the Company as compensation for loss of office or otherwise in connection with the Proposal and the Scheme;
- (ii) save for the Proposal, the Scheme and the Service Agreement, there was no agreement, arrangement or understanding (including any compensation arrangement) between any of the Offeror or parties acting in concert with them on the one hand and any of the directors of the Company, recent directors of the Company, shareholders or recent shareholders of the Company on the other hand; or between any directors of the Company and any other person which is conditional on or dependent upon the outcome of the Proposal and the Scheme or otherwise in connection with the Proposal and the Scheme;
- (iii) save for the Service Agreement, no material contract has been entered into by the Offeror in which any director of the Company has a material personal interest; and
- (iv) save for the service contracts/appointment letters set out below, no other directors of the Company had a service contract with any member of the Magic Group in force which (i) (including both continuous and fixed term contracts) has been entered into or amended within six months before the Pre-Announcement Date; or (ii) was a continuous contract with a notice period of 12 months or more; or (iii) was a fixed term contract that has more than 12 months to run irrespective of the notice period.

Name of director	Date of service contract/ appointment letter	Expiry date of service contract/ appointment letter	Remuneration
Tang Siu Kun Stephen	6 September 2010	31 August 2014	Fixed remuneration of RMB871,200 per year
She Yu Yuan	6 September 2010	31 August 2014	Fixed remuneration of RMB1,645,600 per year
Luo Yao Wen	6 September 2010	31 August 2014	Fixed remuneration of RMB1,306,800 per year
Cheng Wing Hong	29 June 2012	30 June 2015	Fixed remuneration of HKD1,056,000 per year
Sun Yan	27 October 2010	26 October 2014	Fixed remuneration of RMB132,000 per year
Chen Dar Cin	22 June 2012	30 June 2014	Nil
Yan Kam Tong	6 September 2010	31 August 2014	Fixed remuneration of RMB132,000 per year
Dong Yin Mao	6 September 2010	31 August 2014	Fixed remuneration of RMB132,000 per year
Yang Rude	6 September 2010	31 August 2014	Fixed remuneration of RMB132,000 per year

5. MATERIAL LITIGATION

As at the Latest Practicable Date, there was no material litigation or claim of material importance known to the directors of the Company to be pending or threatened by or against any member of the Magic Group.

6. MATERIAL CONTRACTS

The following material contracts (not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Company or any of its subsidiaries) have been entered into by the Company or any of its subsidiaries after the date two years before the Pre-Announcement Date up to and including the Latest Practicable Date:

- (a) Implementation Agreement dated 15 August 2013 and entered into among the Company, the Offeror and Mr. She (as amended and supplemented by an amendment agreement dated 26 February 2014 and entered into between the Company, the Offeror and Mr. She) in relation to the parties' commitments to implement the Proposal and certain obligations of the Company and the Magic Group relating to the conduct of business;
- (b) Service Agreement dated 4 February 2014 and entered into between the Employer and Mr. She (as amended and supplemented by an amendment agreement dated 26 February 2014 and entered into between the Employer and Mr. She), setting out the terms of employment of Mr. She by the Employer upon the Scheme becoming effective. Please refer to the section headed "Service Agreement and Remuneration Package — Service Agreement" in Part VIII — Explanatory Memorandum of this Scheme Document;
- (c) Retention Arrangement Escrow Agreement dated 20 February 2014 and entered into among the Offeror, Mr. She and the Escrow Bank in relation to the Retention Arrangement. Please refer to the paragraph headed "Retention Arrangement" in Part VIII — Explanatory Memorandum of this Scheme Document;
- (d) Retention Bonus Escrow Agreement dated 20 February 2014 and entered into among the Employer, Mr. She and the Escrow Bank in relation to the Retention Bonus. Please refer to the paragraph headed "Retention Bonus" in Part VIII — Explanatory Memorandum of this Scheme Document; and
- (e) Share Purchase Agreement dated 31 May 2013 and entered into among Allied Benefit International Limited, Boom Easy Development Ltd., East Talent Investment Limited, Mr. Liao Minxin, Mr. Guo Liang, Mr. Guo Liang, Mr. Xu Yingjian and Magic Cosmetics Company Limited in relation to the Baili Acquisition. Pursuant to the Share Purchase Agreement, Magic Cosmetics Company Limited, an indirect wholly owned subsidiary of the Company, has conditionally agreed to acquire, and Allied Benefit International Limited, Boom Easy Development Ltd., and East Talent Investment Limited have conditionally agreed to dispose, of the entire issued share

capital of Apex Rich Enterprises Limited at a consideration of RMB400 million. Further details in relation to the Baili Acquisition are set out in the Company's announcement dated 31 May 2013.

7. EXPERT

The following are the qualifications of each of the experts who has given opinions or advice which are contained in this Scheme Document:

Name	Qualifications
BNP Paribas	A licensed corporation under the SFO, licensed to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) regulated activities
Quam Capital Limited	A licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

8. CONSENTS

Each of BNP Paribas and Quam Capital Limited has given and has not withdrawn its written consent to the issue of this Scheme Document with the inclusion therein of the opinions and/or letters and/or the references to its name and/or opinions and/or letters in the form and context in which they respectively appear.

9. MISCELLANEOUS

(a) The directors of the Company are:

Executive directors

Tang Siu Kun Stephen

She Yu Yuan

Luo Yao Wen

Cheng Wing Hong

Non-executive directors

Sun Yan

Chen Dar Cin

Independent non-executive directors

Yan Kam Tong

Dong Yin Mao

Yang Rude

- (b) The company secretary of the Company is Cheng Wing Hong.
- (c) The registered office of the Company is situated at Cricket Square, Hutchins Drive, George Town, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (d) The head office and principal place of business of the Company in Hong Kong is at Room 802, Sino Plaza, 255–257 Gloucester Road, Causeway Bay, Hong Kong.
- (e) The headquarters of the Company in PRC is at 29/F, Poly International Plaza North Tower, No. 688 Yue Jiang Road M, Hai Zhu District, Guangzhou, Guangdong Province, PRC.
- (f) The principal share registrar of the Company is Butterfield Fulcrum Group (Cayman) Limited, Butterfield House, 68 Fort Street, P.O. Box 609, Grand Cayman KY1-1107, the Cayman Islands.
- (g) The Hong Kong branch share registrar and transfer office of the Company is Tricor Investor Services Limited, 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (h) The directors of the Offeror are:

Directors:

Jean-Paul Agon
Jean-Pierre Meyers
Peter Brabeck-Letmathe
Françoise Bettencourt Meyers
Paul Bulcke
Christiane Kuehne
Jean-Victor Meyers

Independent Directors:

Virginie Morgon
Annette Roux
Charles-Henri Filippi
Xavier Fontanet
Bernard Kasriel
Marc Ladreit de Lacharrière
Louis Schweitzer

- (i) The registered office of the Offeror is at 14 rue Royale, 75008 Paris, France.
- (j) The Offeror is a “société anonyme” existing and organized under the laws of France, registered under number 632 012 100 RCS Paris. The shares of the Offeror are traded on the Euronext Paris S.A.. So far as the Offeror is aware and based on publicly available information as at the Latest Practicable Date, the Bettencourt family held 30.64% of the Offeror's share capital (equating to 30.64% of the

Offeror's voting rights calculated accordance with Article 223-11 of the General Regulation of the Autorité des Marchés Financiers). In additional, the Bettencourt family acts in concert with Nestlé S.A. with respect to voting rights in the Offeror for the purposes of applicable French laws and regulations. Taking into account such concert relationship, so far as the Offeror is aware and based on publicly available information as at the Latest Practicable Date, the Bettencourt family and Nestlé S.A. together represented 60.07% of the Offeror's share capital (equating to 60.07% of the Offeror's voting rights calculated in accordance with Article 223-11 of the General Regulation of the Autorité des Marchés Financiers).

- (k) The address of Mr. She is at 29/F, Poly International Plaza North Tower, No.688 Yue Jiang Road, M, Hai Zhu District, Guangzhou, PRC.
- (l) The principal place of business of BNP Paribas is at 59/F–63/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of the Company, Room 802, Sino Plaza, 255–257 Gloucester Road, Causeway Bay, Hong Kong from 9:30 a.m. to 5:30 p.m., Monday to Friday and on the website of the Company at www.magicholdings.co and the website of SFC at www.sfc.hk from Friday, 28 February 2014 until the Effective Date or the date on which the Scheme lapses or is withdrawn, whichever is earlier:

- (a) the memorandum and articles of association of the Company;
- (b) the memorandum and articles of association of the Offeror;
- (c) the annual reports of the Company for the years ended 30 June 2011, 2012 and 2013 and the interim results announcement of the Company for the six month period ended 31 December 2013;
- (d) the letter from the Board, the text of which is set out in Part IV of this Scheme Document;
- (e) the letter from the Independent Board Committee, the text of which is set out in Part V of this Scheme Document;
- (f) the letter from the Independent Financial Adviser, the text of which is set out in Part VI of this Scheme Document;
- (g) the letter from the Listing Rules Independent Board Committee, the text of which is set out in Part VII of this Scheme Document;
- (h) written consents referred to in the section headed “8. Consents” in Appendix II — General Information on the Company and the Offeror to this Scheme Document;

- (i) the material contracts referred to in the section headed “6. Material Contracts” in Appendix II — General Information on the Company and the Offeror to this Scheme Document;
- (j) the irrevocable undertakings referred to in the section headed “16. Irrevocable Undertakings” of Part VIII — Explanatory Memorandum of this Scheme Document;
- (k) the undertakings from each of Mr. She, SPVCo, Ms. Wu Xiao Qing (the spouse of Mr. She) and the Share Award Plan Trustee to be bound by the Scheme and to do all acts to give effect to the Scheme, all dated 24 January 2014;
- (l) the guarantee dated 15 August 2013 executed between L’Oréal China (in favour of Mr. She) and Mr. She (as amended and supplemented by an amendment agreement dated 4 February 2014 and executed between the Employer and Mr. She) referred to in the section headed “17. Service Agreement and Remuneration Package” of Part VIII — Explanatory Memorandum of this Scheme Document;
- (m) the service contracts referred to in the section headed “4. Disclosure of Interests — (d) Other Interests” in Appendix II — General Information on the Company and the Offeror to this Scheme Document; and
- (n) this Scheme Document.

IN THE GRAND COURT OF THE CAYMAN ISLANDS
FINANCIAL SERVICES DIVISION

Cause No. FSD 5 of 2014 (AJH)

IN THE MATTER of sections 15 and 86 of the Companies Law (2013 Revision)
AND IN THE MATTER of the Grand Court Rules 1995 Order 102
AND IN THE MATTER of Magic Holdings International Limited

PRELIMINARY

(A) In this Scheme, unless inconsistent with the subject or context, the following expressions shall have the meanings respectively set opposite them:

“acting in concert”	the meaning ascribed to it in the Takeovers Code
“BNP Paribas”	BNP Paribas Securities (Asia) Limited, the financial adviser to the Offeror. BNP Paribas is a licensed corporation under the SFO, licensed to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) regulated activities
“Business Day”	A day on which the Stock Exchange is open for the transaction of business
“Cancellation Price”	the cancellation price of HK\$6.30 per Share payable in cash by the Offeror to the Scheme Shareholders pursuant to the Scheme
“Companies Law”	the Companies Law (2013 Revision), as consolidated and revised, of the Cayman Islands
“Company” or “Magic”	Magic Holdings International Limited, an exempted company incorporated in the Cayman Islands with limited liability, the ordinary Shares of which are currently listed on the Main Board of the Stock Exchange

“Effective Date”	the date on which the Scheme, if approved and sanctioned by the Grand Court, becomes effective in accordance with its terms and the Companies Law, being the date on which a copy of the Order of the Grand Court sanctioning the Scheme is delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to section 86(3) of the Companies Law, and which is expected to be Monday, 7 April 2014 (Cayman Islands time)
“Grand Court”	the Grand Court of the Cayman Islands
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company comprising all the non-executive directors of the Company established by the Board to make a recommendation to the Independent Shareholders in respect of the Proposal, the Scheme and the Service Agreement
“Independent Financial Adviser”	the independent financial adviser to the Independent Board Committee appointed pursuant to Rule 2.1 of the Takeovers Code in relation to the Proposal, the Scheme and the Service Agreement, being Quam Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO
“Independent Shareholders”	Shareholders other than the parties acting in concert with the Offeror, Mr. She and his associates (including the SPVCo, his spouse and the Share Award Plan Trustee)
“Latest Practicable Date”	25 February 2014, being the latest practicable date prior to the printing of the composite document containing the Scheme for ascertaining certain information contained therein
“Mr. She”	Mr. She Yu Yuan, an executive director of the Company

“Offeror”	L’Oréal S.A., a “société anonyme” existing and organized under the laws of France, having its registered office at 14 rue Royale 75008 Paris, registered under number 632 012 100 RCS Paris, the shares of which are listed on the Euronext Paris S.A.
“Proposal”	the proposal for the acquisition of the Company by the Offeror by way of the Scheme and the restoration of the share capital of the Company to the amount immediately before the cancellation of the Shares, on the terms and subject to the conditions set out in this Scheme
“Record Date”	Monday, 7 April 2014, or such other time and date as shall have been announced to the Shareholders, being the record date for the purpose of determining the entitlements of the Shareholders to the Cancellation Price upon the Scheme becoming effective
“Register”	the register of members of the Company
“Scheme”	the scheme of arrangement under Section 86 of the Companies Law (subject to any modifications or additions or conditions approved or imposed by the Grand Court and agreed to by the Offeror), involving the cancellation of all the Shares
“Scheme Shareholder(s)”	holder(s) of Shares which include the Awarded Shares and other Shares held by the Share Award Plan Trustee as at the Record Date
“Service Agreement”	the updated and amended executive service agreement dated 4 February 2014 between the Employer and Mr. She (as amended and supplemented by an amendment agreement dated 26 February 2014 and entered into between the Employer and Mr. She), setting out the terms of employment of Mr. She by the Employer upon the Scheme becoming effective
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.10 each in the issued share capital of the Company
“Shareholder(s)”	registered holder(s) of Shares
“SPVCo”	Uprise Smart Limited, a company incorporated in the British Virgin Islands which is wholly-owned by Mr. She

“Takeovers Code”

The Code on Takeovers and Mergers of Hong Kong

- (B) The Company was incorporated as an exempted company on 9 February 2010 in the Cayman Islands under the Companies Law.
- (C) The authorised share capital of the Company as at the Latest Practicable Date was HK\$200,000,000 divided into 2,000,000,000 Shares, and the issued share capital of the Company was HK\$103,789,273.6 divided into 1,037,892,736 Shares.
- (D) The Offeror has proposed the acquisition of the Company by way of the Scheme.
- (E) The primary purpose of the Scheme is to acquire the Company by cancelling and extinguishing all of the Shares in consideration for the Cancellation Price so that thereafter, the Offeror will own 100% of the Company. Subject to and immediately upon the cancellation of the Shares, the issued share capital of the Company will be restored to its former amount by the issue to the Offeror at par credited as fully paid such number Shares as is equal to the number of Shares cancelled and extinguished at the Record Date.
- (F) As at the Latest Practicable Date, the Offeror, Mr. She and his associates (including the SPVCo, his spouse and the Share Award Plan Trustee) and relevant members of the BNP Paribas group, being persons who will not be voting on the Scheme (the “**Excluded Persons**”) are beneficially interested in Shares in aggregate and registered as follows:

Shareholders	Number of Shares
Offeror	—
Mr. She	122,162,633
Share Award Plan Trustee	15,442,669
Relevant members of the BNP Paribas group	<u>132,000</u>
Aggregate number of Shares of Excluded Persons	<u><u>137,737,302</u></u>

- (G) Members of BNP Paribas group (except those which are exempt principal traders and exempt fund managers, in each case recognised by the Executive as such for the purposes of the Takeovers Code), which are presumed to be acting in concert with the Offeror, held as at the Latest Practicable Date 132,000 Shares in aggregate. In accordance with the Takeovers Code, parties holding those Shares will not be entitled to be counted in the vote required for the purposes of the Takeovers Code at the meeting to be convened by order of the Grand Court for the purpose of considering and, if thought fit, approving (with or without modification) the Scheme.
- (H) Mr. She is interested in the Service Agreement and the completion of the Scheme is conditional upon the passing of an ordinary resolution by the Independent Shareholders at an extraordinary general meeting of the Company to approve the Service Agreement. To avoid a conflict of interest, the Offeror, Mr. She and his associates (including the SPVCo,

his spouse and the Share Award Plan Trustee) and any party acting in concert with any of them, and his associates will abstain from voting on the Scheme at the Court Meeting and on the Service Agreement at the Company's extraordinary general meeting.

SCHEME OF ARRANGEMENT
PART I

Cancellation of the Shares and issue of new Shares credited as fully paid at par to the Offeror

1. On the Effective Date:
 - (a) the issued share capital of the Company shall be reduced by cancelling and extinguishing the Shares; and
 - (b) the Company shall apply the credit arising in its books of account as a result of the cancellation of the Shares by paying up in full at par such number of Shares as is equal to the number of Shares cancelled at the Record Date, which shall be allotted and issued and credited as fully paid to the Offeror.

PART II
Consideration for the cancellation and extinguishment of the Shares

2. In consideration of the cancellation and extinguishment of the Shares, the Offeror shall pay (or procure that there shall be paid) to each person who is a holder of the Shares (as appears in the Register on the Record Date) HK\$6.30 in cash for each Share held.

PART III
General

3.
 - (a) Not later than ten (10) days after the Effective Date, on request, the Company shall issue a share certificate to the Offeror.
 - (b) Not later than seven (7) Business Days after Effective Date, the Offeror shall send or cause to be sent cheques representing the Cancellation Price to the Scheme Shareholders.
 - (c) Unless otherwise indicated in writing to the Hong Kong share registrar of the Company, being Tricor Investor Services Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong (to be changed to Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong with effect from 31 March 2014), all cheques to be despatched to Scheme Shareholders shall be sent by post to Scheme Shareholders at their respective addresses as appearing in the Register at the Record Date or, in the case of joint holders, at the address appearing in the Register at the Record Date of the joint holder whose name then stands first in the Register in respect of the relevant joint holding.

- (d) Cheques shall be posted at the risk of the addressees and neither the Offeror nor the Company shall be responsible for any loss or delay in receipt.
 - (e) Cheques shall be in favour of the person to whom, in accordance with the provisions of this Clause 3, the envelope containing the same is addressed and the encashment of any such cheques shall be a good discharge to the Offeror for the monies represented thereby.
 - (f) On or after the day being six calendar months after the posting of the cheques pursuant to this Clause 3, the Offeror shall have the right to cancel or countermand payment of any such cheque which has not been cashed or has been returned uncashed and shall place all monies represented thereby in a deposit account in the Company's name with a licensed bank in Hong Kong selected by the Company. The Company shall hold such monies on trust for those entitled under the terms of the Scheme until the expiration of six years from the Effective Date and shall prior to such date pay out of such monies the sums payable pursuant to the Scheme to persons who satisfy the Company that they are entitled thereto. Any payments made by the Company shall not include any interest accrued on the sums to which the respective persons are entitled pursuant to this Scheme. The Company shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled and a certificate of the Company to the effect that any particular person is so entitled or not so entitled, as the case may be, shall be conclusive and binding upon all persons claiming an interest in the relevant monies.
 - (g) On the expiration of six years from the Effective Date, the Offeror and the Company shall be released from any further obligation to make any payments under the Scheme and the Company shall transfer to the Offeror the balance (if any), of the sums standing to the credit of the deposit account referred to in this Clause 3 including accrued interest subject, if applicable, to the deduction of interest or any withholding tax or other tax or any other deductions required by law and subject to the deduction of any expenses.
 - (h) Paragraph (g) of this Clause 3 shall take effect subject to any prohibition or condition imposed by law.
4. As from the Effective Date, any instruments of transfer relating to and all certificates representing, the Shares shall cease to have effect as documents of title and every Scheme Shareholder shall be bound on the request of the Company to deliver up to the Company the certificates relating to the Shares for cancellation.
 5. All mandates or relevant instructions to or by the Company in force at the Record Date relating to any of the Shares shall cease to be valid as effective mandates or instructions.
 6. The Scheme shall become effective as soon as a copy of the Order of the Grand Court sanctioning the Scheme has been delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to section 86(3) of the Companies Law.

7. Unless the Scheme shall have become effective on or before Tuesday, 29 April 2014 or such later date, if any, as the Offeror and the Company may agree or as the Grand Court on application of the Offeror or the Company may allow, the Scheme shall lapse.
8. The Company and the Offeror may jointly consent for and on behalf of all concerned to any modification of or addition to the Scheme or to any condition which the Grand Court may think fit to approve or impose.
9. All costs, charges and expenses of and incidental to the Scheme and the costs of carrying the Scheme into effect will be borne by the Offeror if the Independent Board Committee or the Independent Financial Adviser does not recommend the Scheme and the Scheme is not approved at the Court Meeting.

Date: 28 February 2014

IN THE GRAND COURT OF THE CAYMAN ISLANDS FINANCIAL SERVICES DIVISION

Cause No. FSD 5 of 2014 (AJH)

IN THE MATTER of sections 15 and 86 of the Companies Law (2013 Revision)

AND IN THE MATTER of the Grand Court Rules 1995 Order 102

AND IN THE MATTER of Magic Holdings International Limited

NOTICE OF COURT MEETING

NOTICE IS HEREBY GIVEN that, by an order (the “**Order**”) made in the above matter, the Grand Court of the Cayman Islands (the “**Court**”) has directed a meeting (the “**Court Meeting**”) to be convened of the Shareholders (as defined in the Scheme of Arrangement hereinafter mentioned) for the purpose of considering and, if thought fit, approving, with or without modifications, a scheme of arrangement (the “**Scheme of Arrangement**”) proposed to be made between Magic Holdings International Limited (the “**Company**”) and the Shareholders and that the Court Meeting will be held at Marina Room I, 2/F, The Excelsior Hotel, 281 Gloucester Road, Causeway Bay, Hong Kong, on Monday, 24 March 2014 at 2:00 p.m. at which place and time all Shareholders are invited to attend.

A copy of the Scheme of Arrangement and a copy of an explanatory memorandum explaining the effect of the Scheme of Arrangement are incorporated in the composite scheme document of which this Notice forms part. A copy of the composite scheme document can also be obtained by the Shareholders from the Hong Kong share registrar of the Company, Tricor Investor Services Limited, at 26/F, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong.

Shareholders may vote in person at the Court Meeting or they may appoint one or more proxies, whether a member of the Company or not, to attend and vote in their stead. A **pink** form of proxy for use at the Court Meeting is enclosed with the composite scheme document dated 28 February 2014 despatched to members of the Company on 28 February 2014.

In the case of joint holders of a share, the vote of the senior holder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and, for this purpose, seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.

It is requested that forms appointing proxies be deposited at the Hong Kong share registrar of the Company in Hong Kong at 26/F, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, not later than 2:00 p.m. on Saturday, 22 March 2014, but if forms are not so lodged they may be handed to the chairman of the Court Meeting, who has absolute discretion as to whether or not to accept them, at the Court Meeting pursuant to the Order.

By the Order, the Court has appointed Mr. Tang Siu Kun Stephen, a director of the Company, or failing him, Mr. Cheng Wing Hong, also a director of the Company, or failing him, any other person who is a director of the Company as at the date of the Order, to act as the chairman of the Court Meeting and has directed the chairman of the Court Meeting to report the results of the Court Meeting to the Court.

The Scheme of Arrangement will be subject to a subsequent application seeking the sanction of the Court.

By order of the Court

Dated 28 February 2014

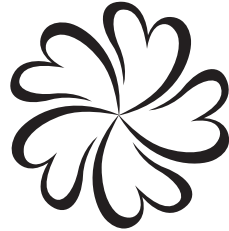
Magic Holdings International Limited

Registered Office

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

Head Office and Principal Place of Business in Hong Kong

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



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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of Magic Holdings International Limited (the “**Company**”) will be held at Marina Room I, 2/F, The Excelsior Hotel, 281 Gloucester Road, Causeway Bay, Hong Kong on Monday, 24 March 2014 at 3:00 p.m. (Hong Kong time) (or so soon thereafter as the meeting of the Shareholders (as defined in the Scheme of Arrangement hereinafter mentioned) convened by the direction of the Grand Court of the Cayman Islands for the same day and place shall have been concluded or adjourned), for the purpose of considering and, if thought fit, passing the following resolutions:

SPECIAL RESOLUTION

1. **THAT:**

- (1) Pursuant to the scheme of arrangement dated 28 February 2014 (the “**Scheme of Arrangement**”) between the Company and the holders of the Shares (as defined in the Scheme of Arrangement) in the form of the print thereof, which has been produced to this meeting and for the purposes of identification signed by the chairman of this meeting, or in such other form and on such terms and conditions as may be approved or imposed by the Grand Court of the Cayman Islands, on the Effective Date (as defined in the Scheme of Arrangement), the issued share capital of the Company shall be reduced by the cancellation and extinguishment of the Shares (as defined in the Scheme of Arrangement); and
- (2) the directors of the Company be and are hereby authorised to do all acts and things considered by them to be necessary or desirable in connection with the implementation of the Scheme of Arrangement and the reduction of capital pursuant to the Scheme of Arrangement, including (without limitation) giving consent to any modification of, or addition to, the Scheme of Arrangement or the reduction of capital which the Grand Court of the Cayman Islands may see fit to impose.

ORDINARY RESOLUTIONS

2. **THAT:**

- (1) subject to and immediately upon the cancellation and extinguishment of the Shares referred to in resolution 1(1) taking effect, the issued share capital of the Company shall be restored to its former amount by allotting and issuing to L'Oréal S.A., credited as fully paid at par, the same number of ordinary shares of HK\$0.10 each in the share capital of the Company as the number of Shares cancelled and extinguished; and
- (2) the credit arising in the books of account of the Company consequent upon the reduction of its issued share capital resulting from the cancellation and extinguishment of the Shares referred to in resolution 1(1) shall be applied in paying up in full at par the Shares allotted and issued to L'Oréal S.A., pursuant to resolution 2(1) above.

3. **THAT** the updated and amended executive service agreement dated 4 February 2014 entered into among Guangzhou Qunhe Cosmetics Co., Ltd. and Mr. She Yu Yuan (as amended and supplemented by an amendment agreement dated 26 February 2014 and entered into between Guangzhou Qunhe Cosmetics Co., Ltd. and Mr. She Yu Yuan), a copy of which has been produced to this meeting and for the purposes of identification signed by the chairman of this meeting, and the transactions contemplated under it, including the remuneration package to Mr. She Yu Yuan, be and are hereby approved, ratified and confirmed.

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

Dated 28 February 2014

Registered office
Cricket Square
Hutchins Drive
George Town
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head Office and Principal Place of Business in Hong Kong
Room 802, Sino Plaza
255–257 Gloucester Road
Causeway Bay, Hong Kong

Notes:

- (1) A member entitled to attend and vote at the extraordinary general meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company, but must attend the extraordinary general meeting in person to represent him.
- (2) A **white** form of proxy for use at the extraordinary general meeting is enclosed with the composite scheme document containing the Scheme of Arrangement dated 28 February 2014 despatched to members of the Company.
- (3) In order to be valid, the **white** form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be lodged with the Hong Kong share registrar of the Company in Hong Kong at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time for holding the extraordinary general meeting or any adjournment thereof failing which the form of proxy will not be valid. Completion and return of the form of proxy will not preclude a member from attending the extraordinary general meeting and voting in person if he so wishes. In the event that a member attends and votes at the extraordinary general meeting after having lodged his form of proxy, his form of proxy will be revoked by operation of law.
- (4) In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and, for this purpose, seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.
- (5) At the extraordinary general meeting, the chairman of the extraordinary general meeting will put all resolutions to the vote by way of poll as required under article 72 of the Company's articles of association and by Rule 13.39(4) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") in the manner prescribed under Rule 13.39(5) of the Listing Rules.
- (6) The register of members of the Company will be closed from Wednesday, 19 March 2014 to Monday, 24 March 2014 (both days inclusive) and during such period no transfer of shares will be registered. In order to be entitled to attend and vote at the extraordinary general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Hong Kong share registrar of the Company, Tricor Investor Services Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 18 March 2014.