



**China AU Group Holdings Limited**  
**中國金豐集團控股有限公司\***

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 8176)**

**THIRD QUARTERLY REPORT**  
**FOR THE NINE MONTHS ENDED**  
**31 MARCH 2010**

\* *For identification purpose only*

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “EXCHANGE”)**

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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*This report, for which the directors of the Company (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material aspects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## **SUMMARY**

- The Group’s turnover for the nine months ended 31 March 2010 was approximately HK\$55,029,000, representing an increase of approximately 1.2 times over the corresponding period of 2009.
- Profit for the nine months ended 31 March 2010 was approximately HK\$17,889,000, representing an increase of approximately 1.7 times over the corresponding period of 2009.
- Basic earnings per shares for the nine months ended 31 March 2010 was HK3.62 cents, representing an increase of 1.2 times over the corresponding period of 2009.
- The board did not recommend the payment of an interim dividend for the nine months ended 31 March 2010.

## **UNAUDITED QUARTERLY RESULTS**

The board of Directors (the “Board”) of China AU Group Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated quarterly results of the Company and its subsidiaries (the “Group”) for the three months and nine months ended 31 March 2010 together with the comparative figures for the corresponding periods in 2009. The condensed consolidated quarterly results have not been audited, but have been reviewed by the Company’s audit committee.

## CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	(Unaudited) For the three months ended 31 March		(Unaudited) For the nine months ended 31 March	
		2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Turnover	3	<b>12,862</b>	9,162	<b>55,029</b>	24,738
Cost of sales		<b>(3,130)</b>	(3,398)	<b>(16,441)</b>	(8,315)
Gross profit		<b>9,732</b>	5,764	<b>38,588</b>	16,423
Other revenue		<b>(21)</b>	–	<b>–</b>	–
Selling and distribution costs		<b>(1,453)</b>	(555)	<b>(8,741)</b>	(1,370)
Administrative expenses		<b>(3,093)</b>	(2,304)	<b>(8,458)</b>	(8,482)
Profit before taxation		<b>5,165</b>	2,905	<b>21,389</b>	6,571
Taxation	4	<b>(500)</b>	–	<b>(3,500)</b>	–
Profit for the period	5	<b><u>4,665</u></b>	<u>2,905</u>	<b><u>17,889</u></b>	<u>6,571</u>
		<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
Earnings per share	7				
– Basic		<b><u>0.89</u></b>	<u>0.74</u>	<b><u>3.62</u></b>	<u>1.67</u>
– Diluted		<b><u>N/A</u></b>	<u>N/A</u>	<b><u>N/A</u></b>	<u>N/A</u>

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	(Unaudited) For the three months ended 31 March 2010		(Unaudited) For the nine months ended 31 March 2010	
	2010	2009	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period	<b>4,665</b>	2,905	<b>17,889</b>	6,571
<b>Other comprehensive income</b>				
Exchange differences arising on translation of foreign operations	<u>27</u>	<u>(31)</u>	<u>(4)</u>	<u>(24)</u>
Other comprehensive income for the period (net of tax)	<u>27</u>	<u>(31)</u>	<u>(4)</u>	<u>(24)</u>
Total comprehensive income for the period	<u><b>4,692</b></u>	<u>2,874</u>	<u><b>17,885</b></u>	<u>6,547</u>

## NOTES

### 1. GENERAL

China AU Group Holdings Limited (formerly known as Blu Spa Holdings Limited) was incorporated in the Cayman Islands on 30 August 2001 as an exempted company with limited liability under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Its parent and ultimate holding company is Million Fortune Group Limited (incorporated in the British Virgin Islands).

The consolidated results are presented in Hong Kong dollars, which is same as the functional currency of the Company.

The Company is an investment holding company. The Group is principally engaged in the development, promotion and distribution of a broad range of botanical personal care products, treatments and services.

### 2. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated results for the nine months ended 31 March 2010 has been prepared under the historical cost convention.

The unaudited condensed consolidated results for the nine months ended 31 March 2010 has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and in compliance with the disclosure requirements of the GEM Listing Rules. The accounting policies used in the unaudited consolidated results for the nine months ended 31 March 2010 are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 30 June 2009, except for the following accounting policies newly adopted in current review period.

In the current review period, the Group has applied for the first time the following new standards, amendments or interpretations issued by the HKICPA, which are effective for the Group’s financial year beginning on 1 July 2009:

HKFRSs (Amendments)	Improvements to HKFRSs <sup>1</sup>
HKFRSs (Amendments)	Improvements to HKFRSs 2009 <sup>2</sup>
HKAS 1 (Revised)	Presentation of Financial Statements <sup>3</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>3</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>4</sup>
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation <sup>3</sup>
HKAS 39 (Amendment)	Eligible Hedged Items <sup>4</sup>
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a Subsidiary, Jointly Controlled Entity or Associate <sup>3</sup>
HKFRS 2 (Amendment)	Vesting Conditions and Cancellation <sup>3</sup>
HKFRS 3 (Revised)	Business Combinations <sup>4</sup>
HKFRS 7 (Revised)	Improving Disclosures about Financial Instruments <sup>3</sup>
HKFRS 8	Operating Segments <sup>3</sup>
HK(IFRIC)– Int 15	Agreements for the Construction of Real Estate <sup>3</sup>
HK(IFRIC)– Int 16	Hedges of a Net Investment in a Foreign Operation <sup>5</sup>
HK(IFRIC)– Int 17	Distributions of Non-cash Assets to Owners <sup>4</sup>
HK(IFRIC)– Int 18	Transfers of Assets from Customers <sup>6</sup>

- <sup>1</sup> *Effective for annual periods beginning on or after 1 January 2009 except for the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009*
- <sup>2</sup> *Effective for annual periods beginning on or after 1 January 2009, 1 July 2009 and 1 January 2010, as appropriate*
- <sup>3</sup> *Effective for annual periods beginning on or after 1 January 2009*
- <sup>4</sup> *Effective for annual periods beginning on or after 1 July 2009*
- <sup>5</sup> *Effective for annual periods beginning on or after 1 October 2008*
- <sup>6</sup> *Effective for transfers on or after 1 July 2009*

The adoption of these new standards, amendments or interpretations had no material effect on how the results of the Group for the current or prior accounting periods have been prepared. Accordingly, no prior period adjustment has been required.

### 3. TURNOVER AND SEGMENTAL INFORMATION

Turnover represents the net amounts received and receivable for goods sold, therapy services and training course services provided, less returns and allowances, by the Group to outside customers. Turnover also includes royalty fee income charged to the distributors for use of the Group's trademarks/tradenames.

An analysis of the Group's turnover and contribution to operating results by business segment and geographical segment are as follows:

#### Turnover and contribution to operating results by business segment and geographical segment

	PRC HK\$'000	Hong Kong HK\$'000	Consolidated HK\$'000
<i>For the nine months ended 31 March 2010 (Unaudited)</i>			
<b>Turnover</b>			
External sales			
– Sales of beauty equipments	42,000	–	42,000
– Sales of beauty products	5,990	346	6,336
– Royalty fee income	4,799	–	4,799
– Therapy services	–	394	394
– Provision of training courses	1,500	–	1,500
	<u>54,289</u>	<u>740</u>	<u>55,029</u>
Total revenue			
	<u>54,289</u>	<u>740</u>	<u>55,029</u>
<b>Result</b>			
Segment result	<u>44,086</u>	<u>(5,498)</u>	38,588
Unallocated corporate incomes			–
Unallocated corporate expenses			(17,199)
Interest income			–
Finance costs			–
Taxation			<u>(3,500)</u>
Profit for the period			<u>17,889</u>

	PRC HK\$'000	Hong Kong HK\$'000	Consolidated HK\$'000
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For the nine months ended 31 March 2009 (Unaudited)

#### Turnover

External sales			
– Sales of beauty equipments	18,000	–	18,000
– Sales of beauty products	2,613	11	2,624
– Royalty fee income	2,058	–	2,058
– Therapy services	–	457	457
– Provision of training courses	1,500	99	1,599
	<u>24,171</u>	<u>567</u>	<u>24,738</u>
Total revenue			

#### Result

Segment result	<u>16,285</u>	<u>138</u>	16,423
Unallocated corporate incomes			–
Unallocated corporate expenses			(9,852)
Interest income			–
Finance costs			–
Taxation			–
Profit for the period			<u>6,751</u>

#### 4. TAXATION

	(Unaudited) Three months ended 31 March		(Unaudited) Nine months ended 31 March	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Profits tax				
– Hong Kong – current period	500	–	3,500	–
– PRC – current period	–	–	–	–
	<u>500</u>	<u>–</u>	<u>3,500</u>	<u>–</u>
Deferred tax	–	–	–	–
	<u>500</u>	<u>–</u>	<u>3,500</u>	<u>–</u>

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for the period ended 31 March 2010.



## 5. PROFIT FOR THE PERIOD

	(Unaudited) Three months ended 31 March		(Unaudited) Nine months ended 31 March	
	2010	2009	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period has been arrived at after charging:				
Directors' remuneration	570	570	1,710	2,528
Other staff costs	1,874	1,339	5,385	4,181
Retirement benefit scheme contributions	52	9	185	202
	<u>2,496</u>	<u>1,918</u>	<u>7,280</u>	<u>6,911</u>
Total staff costs				
Amortisation of intangible assets	234	234	702	702
Depreciation	89	77	307	216
Written off of fixed assets	-	-	161	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

## 6. DIVIDENDS

The Board did not recommend the payment of an interim dividend for the nine months ended 31 March 2010 (2009: Nil).

## 7. EARNINGS PER SHARE

The calculation of the basic earnings per share for the three months and nine months ended 31 March 2010 is based on the profit for the period of approximately HK\$4,665,000 and HK\$17,889,000 respectively, and on the weight average number of 522,200,000 ordinary shares and 494,210,219 ordinary shares in issue respectively during the periods.

The calculation of the basic earnings per share for the three months and nine months ended 31 March 2009 is based on the profit for the period of approximately HK\$2,905,000 and HK\$6,571,000 respectively, and on the weighted average number of 393,680,000 ordinary shares in issue during the periods.

No diluted earnings per share for the three months and nine months ended 31 March 2009 and 31 March 2010 were presented as there was no potential dilutive ordinary share in issue.

## 8. RESERVES

The movements in the reserve of the Group are as follows:

	<b>Share Premium</b> <i>HK\$'000</i>	<b>Merger Difference</b> <i>HK\$'000</i>	<b>(Unaudited) Translation Reserve</b> <i>HK\$'000</i>	<b>Accumulated Losses</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 1 July 2009	57,060	22,735	(26)	(44,882)	34,887
Exchange differences arising from translation of operations outside Hong Kong	–	–	(4)	–	(4)
Profit for the period	<u>–</u>	<u>–</u>	<u>–</u>	<u>17,889</u>	<u>17,889</u>
Total comprehensive income for the period	–	–	(4)	17,889	17,885
Issue of new shares pursuant to a placing agreement dated 19 August 2009	34,860	–	–	–	34,860
Transaction costs attributable to issue of new shares	<u>(1,786)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(1,786)</u>
At 31 March 2010	<u><u>90,134</u></u>	<u><u>22,735</u></u>	<u><u>(30)</u></u>	<u><u>(26,993)</u></u>	<u><u>85,846</u></u>
At 1 July 2008	49,785	22,735	(6)	(56,296)	16,218
Exchange differences arising from translation of operations outside Hong Kong	–	–	(24)	–	(24)
Profit for the period	<u>–</u>	<u>–</u>	<u>–</u>	<u>6,571</u>	<u>6,571</u>
Total comprehensive income for the period	<u>–</u>	<u>–</u>	<u>(24)</u>	<u>6,571</u>	<u>6,547</u>
At 31 March 2009	<u><u>49,785</u></u>	<u><u>22,735</u></u>	<u><u>(30)</u></u>	<u><u>(49,725)</u></u>	<u><u>22,765</u></u>

## 9. RELATED PARTY DISCLOSURES

### a. Related party transactions

Name of party	Nature of transactions	(Unaudited)	
		Nine months ended 31 March	
		2010	2009
		HK\$'000	HK\$'000
Garrick International Limited ( <i>Note</i> )	Purchase of products	3,998	1,889
	Deposit paid for purchase of inventory	<u>3,000</u>	<u>–</u>

*Notes:* Ms. Keung Wai Fun, Samantha (“Ms. Samantha Keung”), Chief Executive Officer of the Company and controlling shareholder of Million Fortune Group Limited (the Company’s ultimate holding company), and Mr. Cheung Tsun Hin, Samson, Chairman and executive Director of the Company, are shareholders and directors of Garrick International Limited. Garrick International Limited is owned as to 90% by Ms. Samantha Keung and as to 10% by Mr. Cheung Tsun Hin, Samson. Mr. Cheung Tsun Hin, Samson is son of Ms. Samantha Keung.

### b. Compensation for key management personnel

The remuneration of directors and other members of key management personnel during the period under review was as follows:–

	(Unaudited)	
	Nine months ended 31 March	
	2010	2009
	HK\$'000	HK\$'000
Short-term employee benefits	<u>2,610</u>	<u>3,428</u>

The remuneration of directors and key management personnel is determined or proposed by the remuneration committee having regard to the performance of individuals and market trends.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Results of operation

For the nine months ended 31 March 2010, the Group recorded a turnover of approximately HK\$55,029,000 (2009: approximately HK\$24,738,000) which represented an increase of approximately 1.2 times when compared with that of the corresponding period last year. The increase in turnover was mainly attributable to improved performance in beauty product and equipment distribution and beauty care services in Hong Kong and the PRC.

The gross profit amounted to approximately HK\$38,588,000 for the nine months ended 31 March 2010 (2009: approximately HK\$16,423,000), representing an increase of 1.3 times over the corresponding period last year. The increase in gross profit was mainly attributable to increased beauty product and equipment distribution for the period.

Selling and distribution costs incurred by the Group for the nine months ended 31 March 2010 amounted to approximately HK\$8,741,000 (2009: approximately HK\$1,370,000), representing an increase of 5.4 times over the corresponding period last year. The increase in selling and distribution costs was mainly attributable to marketing and promotional expenses incurred for the PRC market.

Administrative expenses incurred by the Group for the nine months ended 31 March 2010 amounted to approximately HK\$8,458,000 (2009: approximately HK\$8,482,000), representing a decrease of approximately 0.3% as compared with that of the corresponding period last year.

The Group's profit attributable to shareholder of the Company for the nine months ended 31 March 2010 was approximately HK\$17,889,000 (2009: approximately HK\$6,571,000), representing an increase of 1.7 times over the corresponding period last year.

### Business review

During the period under review, the Group experienced solid business performance in both Hong Kong and the PRC. For the nine months ended 31 March 2010, the Group's turnover amounted to approximately HK\$55,029,000 representing 1.2 times increase from HK\$24,738,000 the turnover during the same period last year.

During the period under review, the Group continued to expand its retail beauty service network by establishing a new spa center at the Macau Jockey Club in Sheung Wan in January 2010. The Group believes that the continuing expansion of retail beauty service network will broaden its customer base while promoting its brand recognition.

At the same time, the Group in collaboration with its PRC distributor took part in the Guangzhou International Beauty & Cosmetics Import-Export Expo Spring 2010 in March this year. Similar to other major Beauty trade events in China, the Guangzhou Expo is perceived as the most efficient and cost effective venue for promoting the Group's product distribution activities in the PRC.

## **Prospects**

In view of the growing demand for new and innovative beauty services, the Group is planning to set up a new hair rejuvenation center in Central during May 2010. The Group believes that the opening of such hair rejuvenation center will help widen its service offerings to customers in order to satisfy the ever-changing needs of modern discerning consumers.

Following the successful opening of Blu Spa cosmetic sales and spa service counters at leading lifestyle department stores, the Group continued to actively seek out suitable locations for setting up new retail outlets.

While directing its primary focus to expanding distribution network, the Group attaches equal importance to ongoing market development efforts such as the participation in the Guangzhou Beauty Expo to be held in September and the Cosmoprof Asia to be held in November this year in Hong Kong.

## **INTERIM DIVIDEND**

The Board did not recommend the payment of an interim dividend for the nine months ended 31 March 2010 (2009: Nil).

## **DISCLOSURE OF THE INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVES IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS**

As at 31 March 2010, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required (i) to be notified to the Company and the Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or deemed to have taken under such provisions of the SFO); or (ii) to be entered in the register referred to therein pursuant to Section 352 of the SFO; or (iii) to be notified to the Company and the Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

## Long position in shares

Name	Nature of interests	Number of shares	Approximate percentage of shareholding
<i>Executive Director</i>			
Ms. Chan Choi Har, Ivy ("Ms. Ivy Chan")	Beneficial owner	2,000,000	0.38%
	Corporate interest	11,065,787 (Note 1)	2.12%
Mr. Ji He Qun	Beneficial owner	800,000	0.15%
	Interest of spouse	9,480,000	1.82%
<i>Chief Executive Officer</i>			
Ms. Samantha Keung	Corporate interest	245,682,200 (Note 2)	47.05%

### Note:

- 1 These shares are held by XO-Holdings Limited. The issued share capital of XO-Holdings Limited is beneficially owned as to 65% by Ms. Ivy Chan.
- 2 These shares are held by Queensbury Global Limited. Queensbury Global Limited is owned as to 88.38% by Million Fortune Group Limited. Million Fortune Group Limited is owned as to 87% by Ms. Samantha Keung.

Save as disclosed above, as at 31 March 2010, none of the Directors or chief executives of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have taken under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO to be entered in the register referred to therein or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Exchange.

## SHARE OPTION SCHEMES

On 30 January 2002, the Company adopted a share option scheme (the "Share Option Scheme") for the primary purpose of providing incentives or rewards to the directors and employees of the Group and to recognise the contribution of such eligible persons to the growth of the Group. The Share Option Scheme will expire on 29 January 2012.

Under the Share Option Scheme, the Board may grant options to directors and employees of the Company or any subsidiaries, to subscribe for shares in the Company within ten years from the adoption date of the Share Option Scheme. Any grant of options to a connected person or any of its associates must be approved by all the independent non-executive Directors of the Company ("the INEDs").

The total number of shares in respect of which options may be granted under the Share Option Scheme and any other scheme is not permitted to exceed 30% of the issued share capital of the Company from time to time. The total number of shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme is an amount equivalent to 10% of the shares of the Company in issue as at the date of the annual general meeting held on 28 December 2009.

The number of shares issued and issuable in respect of which options may be granted under the Share Option Scheme and any other scheme to any individual within 12-month period immediately preceding the date of such new grant is not permitted to exceed 1% of the issued share capital of the Company at the date of such new grant, without prior approval from the Company's shareholders. Options granted to substantial shareholders or INEDs, when aggregated with the options granted under the Share Option Scheme and any other scheme in the past 12 months, in excess of 0.1% of the Company's share capital and with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK\$1 per grant. Options may be exercised at any time from the date of grant to the 10th anniversary of the date of grant. The exercise price is determined by the Board, and will not be less than the higher of the closing price of the Company's shares on the date of grant, and the average closing price of the Company's shares for the five business days immediately preceding the date of grant.

As at 31 March 2010, no options had been granted under the Share Option Scheme.

## **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

At no time during the period was the Company, or any of its subsidiaries, a party to any arrangements to enable the Directors of the Company to acquire benefit by means of acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the Directors or their spouses or children under the age 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

## **SUBSTANTIAL SHAREHOLDERS**

As at 31 March 2010, so far as is known to the Directors and chief executives of the Company, the following person (other than the Directors and chief executives of the Company as disclosed above) had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO:

## Long position in shares

Shareholder	Nature of interests	Number of shares	Approximate percentage of shareholding
Queensbury Global Limited	Beneficial owner	245,682,200	47.05%
Million Fortune Group Limited	Interest of controlled corporation	245,682,200	47.05%
Ms. Samantha Keung	Interest of controlled corporation	245,682,200	47.05%

*Note:* As at 31 March 2010, Queensbury Global Limited owned 245,682,200 ordinary shares of the Company. As Million Fortune Group Limited holds 88.38% interest in the registered capital of Queensbury Global Limited and Ms. Samantha Keung holds 87.0% interest in the registered capital of Million Fortune Group Limited, Ms. Samantha Keung is deemed to be interested in all of the 245,682,200 ordinary shares of the Company held by Queensbury Global Limited. Ms. Samantha Keung's indirect interest in these 245,682,200 ordinary shares of the Company is also disclosed in the paragraph headed "Disclosure of the interests and short positions of directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporations". These ordinary shares represent the same interest and therefore duplicate amongst Queensbury Global Limited and Ms. Samantha Keung.

Save as disclosed above, the Directors and chief executives of the Company are not aware of any person (other than the Directors and chief executives of the Company as disclosed above) who, as at 31 March 2010, had any interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for the nine months ended 31 March 2010.

## ADVANCES TO AN ENTITY

As at 31 March 2010, the Group did not have, in its normal and ordinary course of business, any relevant advance to an entity that is required to be disclosed pursuant to Rules 17.22 and 17.24 of the GEM Listing Rules.

## COMPETING INTERESTS

During the period under review, none of the Directors or the management shareholders (as defined in the GEM Listing Rules) of the Company had any interest in business that competes or might compete with the business of the Group.



## **CORPORATE GOVERNANCE**

For the nine months ended 31 March 2010, the Group had been in compliance with most of the provisions of the Code on Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules, save as the deviations discussed below. The Company adopted the code provisions set out in the Code on Corporate Governance Practices as its own code of corporate governance practices.

According to Code Provision A.4.1, non-executive directors must be appointed for a specific term and subject to re-election. The existing non-executive Directors of the Company do not have specific terms of appointment. However, pursuant to the Bye-laws of the Company, all Directors of the Company (including executive and non-executive Directors) (except the Chairman of the Company) shall be subject to retirement by rotation in annual general meetings of the Company.

According to Code Provision A.4.2, every director is subject to retirement by rotation at least once every three years. Pursuant to the Bye-laws of the Company, at each annual general meeting, one-third of the Directors must retire. Notwithstanding any requirements of that provision, the Chairman of the Company is not subject to retirement by rotation or taken into account in determining the number of Directors to retire. As Mr. Cheung Tsun Hin, Samson, the Chairman and executive Director of the Company, is responsible for market development of the Group, the Board believes that continuity is the key to implementing the long-term business plans successfully, and that with the Chairman continuing in office, it can provide the Group with strong and consistent leadership, thus long-term business strategies can be planned and implemented more effectively. The Board is of the view that the Chairman of the Company should not be subject to retirement by rotation.

## **SECURITIES TRANSACTIONS BY DIRECTORS**

During the period under review, the Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. After making specific enquiries to all Directors of the Company, the Company was not aware of any Directors who were in breach of the required standard of dealings and the Company's code of conduct on securities transactions by Directors for the period under review.

## **BOARD OF DIRECTORS**

The Board of the Company comprises seven Directors, of which three are executive Directors, namely Mr. Cheung Tsun Hin, Samson, Ms. Ivy Chan and Mr. Ji He Qun, one is non-executive Director, namely Mr. Chan Shun Kuen, Eric, and three are INEDs, namely Mr. Chan Sze Hon, Mr. Lam Wai Pong and Mr. Yeung Mario Bercasio. The Directors are collectively responsible for the development of the Group's strategies and policies. The executive Directors are responsible for the daily operation of the Group while the non-executive Directors provide their professional advices to the Group. The non-executive Directors have professional experiences in legal, finance and accounting and engineering respectively.

With the exception of the Chairman of the Company not subject to retirement by rotation or taken into account in determining the number of Directors to retire, one-third of all the Directors shall retire by rotation from office each year in accordance with the Company's Bye-laws. The term of office of the Directors is the period up to their retirement by rotation. Those Directors at any time appointed by the Board shall hold office only until the next following annual general meeting of the Company and shall be eligible for re-election but shall not be taken into account in determining the Directors who are to retire by rotation at such meeting.

## **AUDIT COMMITTEE**

As required by Rules 5.28 to 5.33 of the GEM Listing Rules, the Company established an audit committee on 10 December 2001 with written terms of reference which precisely specifies its powers and duties. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

The audit committee currently comprises three INEDs, namely, Mr. Chan Sze Hon, Mr. Lam Wai Pong and Mr. Yeung Mario Bercasio. Mr. Chan Sze Hon is the chairman of the audit committee.

The Group's unaudited quarterly results for the nine months ended 31 March 2010 have been reviewed by the audit committee.

## **REMUNERATION COMMITTEE**

The Company established a remuneration committee on 30 March 2005 with written terms of reference. The remuneration committee currently comprises three INEDs of the Company, namely, Mr. Chan Sze Hon, Mr. Lam Wai Pong and Mr. Yeung Mario Bercasio. Mr. Chan Sze Hon is the chairman of the remuneration committee.

## **PUBLIC FLOAT**

Based on the information that is publicly available to the Company and within the knowledge of its Directors, as at the date of this report, there is sufficient public float, as not less than 25% of the Company's issued shares are held by the public.

## **BOARD PRACTICES AND PROCEDURES**

During the period under review, the Company has been in compliance with the requirements for the Board Practices and Procedures as set out in Rule 5.34 of the GEM Listing Rules.

By order of the Board  
**China AU Group Holdings Limited**  
**Cheung Tsun Hin, Samson**  
*Chairman*

Hong Kong, 7 May 2010

*As at the date of this report, the Board comprises three executive Directors, namely Mr. Cheung Tsun Hin, Samson, Ms. Chan Choi Har, Ivy and Mr. Ji He Qun; one non-executive Director, namely Mr. Chan Shun Kuen, Eric; and three INEDs, namely Mr. Chan Sze Hon, Mr. Lam Wai Pong and Mr. Yeung Mario Bercasio.*