中國金豐集團控股有限公司

CHINA AU GROUP HOLDINGS LIMITED

Annual Report 2010

(Stock Code: 8176)

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK 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 Stock 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 trade 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.

This report, for which the directors (the "Directors") of China AU Group Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to China AU Group Holdings Limited. The Directors, 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.

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COMPANY INFORMATION

LEGAL NAME

China AU Group Holdings Limited
(formerly known as Blu Spa Holdings Limited)

BOARD OF DIRECTORS

Executive Directors:
Cheung Tsun Hin, Samson *(Chairman)*
Chan Choi Har, Ivy *(Vice Chairman)*
Ji He Qun

Non-executive Directors:
Chan Shun Kuen, Eric

Independent non-executive Directors:
Chan Sze Hon
Lam Wai Pong
Yeung Mario Bercasio

SENIOR MANAGEMENT

Keung Wai Fun, Samantha
(Chief Executive Officer)

COMPANY SECRETARY & QUALIFIED ACCOUNTANT

Huen Lai Chun, FCCA

COMPLIANCE OFFICER

Chan Choi Har, Ivy

AUTHORISED REPRESENTATIVES

Chan Choi Har, Ivy
Huen Lai Chun

AUDIT COMMITTEE

Chan Sze Hon *(Chairman of Committee)*
Lam Wai Pong
Yeung Mario Bercasio

REMUNERATION COMMITTEE

Chan Sze Hon *(Chairman of Committee)*
Lam Wai Pong
Yeung Mario Bercasio

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

23/F., Euro Trade Centre,
21-23 Des Voeux Road Central,
Central,
Hong Kong

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Secretaries Limited
26/F., Tesbury Centre,
28 Queen's Road East,
Wan Chai,
Hong Kong

AUDITORS

HLM & Co.
Certified Public Accountants

PRINCIPAL BANKERS

Hang Seng Bank Limited

WEBSITE ADDRESS

www.bluspa.com

STOCK CODE

8176

CHAIRMAN'S STATEMENT

On behalf of China AU Group Holdings Limited, I am pleased to present this annual report of the Company and the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 30 June 2010 to the shareholders of the Company.

OPERATING REVIEW

During the year under review, the world economy experienced slow recovery from the severe recession and the beauty industry continued to be adversely affected by the US sub-prime economic meltdown in the North America and Europe causing ripple effect across the world that loomed large as a global financial and economic crisis.

Nevertheless, the Group was able to record a turnover of HK$99,662,281, representing an increase of 1.0 times as compared to that of last year (2009: HK$49,294,137). Such increase in turnover was mainly attributed to the continuing efforts of the Group in improving its product distribution, customer service and beauty care services in Hong Kong and mainland China. Despite the closure of many small beauty services providers, the Group's business performance was reasonably satisfactory.

HONG KONG BUSINESS

In order to maintain its competitive edge, the Group continued to expand its retail network by opening two cosmetic sales and spa service counters in the CITISTORE, a lifestyle department store located in Tsuen Wan City Landmark II and Tseung Kwan O Metro City Plaza II and one cosmetic sales counter in the ID:C, a specialty shop catered for young generation customers, located in Tuen Mun Trend Plaza, as part of the Group's efforts to penetrate and capture a different market segment of the beauty care industry.

During the year under review, the Group also established a new spa centre at the Macau Jockey Club, located in Central China Merchants Tower. The Group believes that the continuing expansion of retail beauty service network will broaden its customer base while promoting its brand recognition. To cater for the ever changing needs of different market sectors, we diversified our services by establishing a new hair rejuvenating center in the Central Euro Trade Centre.

MAINLAND CHINA BUSINESS

During the year under review, the PRC distributor continued to expand its spa beauty network by opening new spa centers at the resort facilities of Tianmu Group, a leading hot spring resort operator having chain resorts located in Lushan, Jiangxi, Yangzhou and Jiangsu.

During the year under review, the Group continued to focus its attention on the distributorship business in the PRC through the provision of marketing and promotional support to the PRC distributor. Jointly with the PRC distributor, the Group took part in Guangzhou International Beauty & Cosmetic Import-Export Autumn 2009 and Spring 2010. The two trade events were held at the China Import and Export Fair Pazhou Complex in September 2009 and March 2010 respectively. The Group attached great importance to its continuing participation in such trade events which is conducive to promoting market awareness of Blu Spa brand products and services.

PROSPECT AND APPRECIATION

While we are confident of the continuing global economic recovery, the Group remains committed to its continuing effort to product distribution in China which constitutes the primary contributor to the Group's business growth. The Group will continue to provide new innovative beauty care products and professional services to its customers so as to secure customer loyalty and enhance brand awareness.

On behalf of the board of Directors, I would like to express my deepest appreciation to our shareholders, customers, business partners for their continuing trust and support extended to the Group. We are equally grateful to our fellow directors and staff of the Group for their unwavering commitment and dedication which has been crucial to the successful performance of the Group. We are optimistic that the Group will achieve steady growth in the future and provide satisfactory return for our shareholders in the coming years.

Cheung Tsun Hin, Samson
Chairman
Hong Kong, 27 September 2010

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the year under review, the turnover of the Group amounted to HK$99,662,281, representing an increase of 1.0 times as compared to that of last year (2009: HK$49,294,137). Such increase was primarily attributable to the remarkable growth in the distribution sales and beauty services in both Hong Kong and mainland China.

While Hong Kong was experiencing slow recovery in retail industry, during the year under review the Group opened two cosmetic sales and spa service counters in life-style department store "CITISTORE" and one sales and spa service counter in specialty shop "ID:C" of which both are targeted at the young consumer market segment of the beauty care industry. The Group further established a new spa center at Macau Jockey Club which is considered to be one of the leading potential contributors to its future business growth in the spa service sector.

During the period under review, apart from the new cosmetic sales counters and spa centers opened in Hong Kong and China, the Group opened its first hair rejuvenation center in the Central District which coincided with the market debut of Group's new line of hair treatment products. The Group believes that the opening of the new hair rejuvenation center will help widen its product and service offerings to customers and strengthen its sales and profitability.

Regarding the PRC market, the Group has obtained the beauty school license necessary for the opening and operation of its new vocational training academy in Hua Du, Guangzhou ("Academy") as part of the Group's efforts of seeking diversification and new investment opportunities that have good prospect in producing strong earnings and profitability. In addition to providing international beauty training courses, the Academy will offer other vocational training such as academic studies, finance, health related and non-Chinese language courses. Given that the operation of the Academy is based on a business model that requires tuition fees to be paid at the beginning of each academic year, the Group anticipates that the opening of the Academy will not only promote future business growth, it will at the same time generate higher turnover and profit margin for the Group in the future.

While there are existing measures to monitor the performance and financial position of the PRC Sole Distributor and measures to monitor its transactions and outstanding balance. For better management of operation and credit risks, the Group has notified the PRC Sole Distributor that when the current term is due to expire in July 2011, the Group will only consider an extension on the condition that its sole distributorship be restricted to a designated region and two new distributors be appointed in respect of two other regions in the PRC. The aim of such additional measures is to minimize the Group's exposure to operation and credit risks attributable to the heavy reliance on a single distributor in the PRC.

OPERATING RESULTS

For the year ended 30 June 2010, the Company and its subsidiaries (the "Group") recorded a turnover of HK$99,662,281, representing an increase of 1.0 times as compared to last year (2009: HK$49,294,137). This significant increase in turnover was mainly attributed to the continuing efforts of the Group in improving its product distribution, customer service and beauty care services in Hong Kong and mainland China.

The Group's gross profit for the year ended 30 June 2010 was HK$67,062,779, representing an increase of 1.1 times as compared to last year (2009: HK$32,141,036) which was mainly attributable to increased distribution sales for the year.

The Group's distribution costs for the year ended 30 June 2010 was HK$16,090,302, representing an increase of 1.0 times as compared to last year (2009: HK$7,952,828). The increase in distribution costs was mainly attributable to increased marketing and promotional expenses for the development of distributorship business in the PRC.

The Group's administrative expense for the year ended 30 June 2010 was HK$13,913,380, representing an increase of 6.8% as compared to last year (2009: HK$13,030,512).

The Group's finance costs for the year ended 30 June 2010 was HK$3,024,666 (2009: Nil). The finance costs relates to the imputed interest on the convertible bonds issued during the year and interest expenses on other borrowings.

The Group had profit attributable to shareholders of the Company of HK$27,113,366 for the year ended 30 June 2010 representing an increase of 1.4 times as compared to last year (2009: HK$11,413,618).

PROSPECT

As for Hong Kong, given the successful opening and operation of Blu Spa cosmetic sales and spa service counters in leading lifestyle department stores such as Harvey Nichols and CITISTORE and specialty shop such as ID:C, the Group is actively seeking new opportunities to expand its retail distribution network by setting up cosmetic sales and spa service counter in leading department stores and upscale shopping centers in Hong Kong. At the same time, the Group is engaged in on-going negotiations with leading property developers in Hong Kong for additional spa facility management opportunity in high-end residential estates as well as hotels.

With regard to the China market, in view of the growing demand of Chinese consumers for beauty and body care services, the Group has in place business plan for launching hair care franchise business catering for young entrepreneurs interested in investing in operation of unique innovative hair care franchise. As franchisor we will provide technical support ranging from shop location selection to staff training and product supplies. The Group is confident that hair care franchise business in China will help increase its market share in China hair care market sector, broaden its income base and at the same time improve its profitability.

As mentioned earlier, the Group is actively seeking new business opportunities similar to the Hua Du academy that potentially will contribute to its successful performance and stronger financial results.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2010, the equity attributable to equity holders of the Company amounted to HK$187,864,639, representing an increase of HK$105,737,408 or approximately 1.3 times from previous year.

As at 30 June 2010, current ratio of the Group was 14.4 (2009: 11.4).

As at 30 June 2010, total cash and bank balances of the Group were HK$1,751,687 (2009: HK$1,116,547).

For the year ended 30 June 2010, the Group mainly financed its operations with internally generated resources and net proceeds of approximately HK$38,000,000 and HK$110,000,000 from the issue of 49,800,000 ordinary shares at the placing price of HK$0.80 per share on 2 December 2009 and three-year zero coupon convertible bonds due 2013 in the aggregate principal amount of HK$114,000,000 with the conversion price of HK$0.19 (subject to adjustment in accordance with the terms and conditions of the convertible bonds) per ordinary share of HK$0.10 each on 29 April 2010 respectively.

CAPITAL STRUCTURE

On 2 December 2009, the Company issued 49,800,000 ordinary shares with a par value of HK$0.10 each at the placing price of HK$0.80 per share.

On 29 April 2010, the Company issued three-year zero coupon convertible bonds due 2013 in the aggregate principal amount of HK$114,000,000 with a conversion price of HK$0.19 (subject to adjustment in accordance with the terms and conditions of the convertible bonds) per ordinary share of HK$0.10 each of the Company. The fair value of the liability component and equity conversion component were determined upon the issuance of the convertible bonds. The liability component at the date of issue and as at 30 June 2010 amounted to HK$69,556,642 and HK$71,687,938 respectively (note 21 to the financial statements).

Subsequent to the balance sheet date, on 6 August 2010, the convertible bonds in a total principal amount of HK$19,000,000 were converted into 100,000,000 ordinary shares of the Company.

During the year ended 30 June 2010, the shareholder's equity of the Company increased to HK$187,864,639 (2009: HK$82,127,231). Details of the changes in equity are set out in the Consolidated Statement of Changes in Equity in this annual report.

Save as the issuance of convertible bonds above, the Group had no material borrowings as at 30 June 2010.

The cash and cash equivalents of the Group are mainly denominated in Hong Kong dollars.

GEARING RATIO

As at 30 June 2010, the Group's gearing ratio, expressed as a ratio of total borrowings to total assets, was 25.8% (2009: Nil). The increase in the gearing ratio is resulted from the issue of the convertible bonds during the year.

POSSIBLE MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND JOINT VENTURES

Possible major transaction and advance to entity

Reference is made to the Company announcements published on 16 December 2009, 24 February 2010, 30 March 2010, 30 April 2010, 20 May 2010 and 25 August 2010. Unless otherwise stated, capitalized terms used in this annual report shall have the same meanings as defined in the above announcements.

On 30 April 2010, BSHK (the "Purchaser", a wholly-owned subsidiary of the Company) and the Vendor entered into the S&P Agreement, pursuant to which BSHK has agreed to purchase and the Vendor has agreed to sell 70% of the entire issued share capital of the Target Company and the Loan at an consideration of HK$80,000,000 and the Vendor has agreed to grant the Option to the BSHK to purchase the remaining 30% of the entire issued share capital in the Target Company at an consideration of HK$30,000,000 during the Option Period. As a condition precedent to the Acquisition, the Target Company will undergo the Reorganization whereby among other things the Target Company will acquire (through the WOFE) entire equity interest in the Property. The Property has two 3-storey buildings situated at Hua Du, Guangzhou, the PRC. The aggregate site area and the gross floor area of the Property are approximately 3,000 sq.m. and approximately 8,000 sq.m. respectively. The Property is not subject to any tenancies and the Group intends to occupy the Property to set up a training institute by offering various training courses for professional beauty therapists. In addition, the Group intends to lease out certain portion of the property to other independent third party academic institutes for offering other courses such as languages and corporate management.

An aggregate of HK$45,000,000 has been paid to the Vendor by cash as refundable deposit and part payment (the "Deposit") and the balance of the Consideration of HK$35,000,000 shall be settled by cash or by issue of zero coupon convertible notes due 2015 of the Company (or a combination of both) at the discretion of the Purchaser.

Pursuant to the Company's announcement of 25 August 2010, BSHK and the Vendor agreed to extend the long stop date of the S&P Agreement to 30 November 2010 (or such later date as BSHK and the Vendor may agree) to allow more time to prepare the necessary information for inclusion in the Circular.

Given the Deposit of HK$45,000,000 represents approximately 16.2% of the total asset value of the Company as at 30 June 2010 under the assets ratio (as defined under Rule 19.07(1) of the GEM Listing Rules), it constitutes an advance to entity under Rule 17.15 of the GEM Listing Rules.

Possible Acquisition of indirect interest in the Joint Venture Company and advance to entity

Reference is made to the Company announcements published on 9 December 2009, 28 January 2010, 25 February 2010, 3 May 2010 and 27 August 2010. Unless otherwise stated, capitalized terms used in this annual report shall have the same meanings as defined in the above announcements.

On 3 May 2010, the Purchaser (a wholly-owned subsidiary of the Company) entered into the HOA with the Vendor in relation to the Possible Acquisition of indirect interest in the Joint Venture Company. The principal business of the Joint Venture Company is to engage in the business of research, development and operation of an electronic medical card system using the radio frequency identification technology in the PRC (the "e-Medical Card Project"). An aggregate of HK$25,000,000 has been paid by cash as refundable earnest money.

Pursuant to the Company's announcement of 27 August 2010, the Purchaser, the Vendor and the Guarantor agreed to extend the long stop date of the HOA for entering into the S&P Agreement to 31 December 2010 (or such later date as the Purchaser, the Vendor and the Guarantor may agree). No binding agreement in relation to the Possible Acquisition has been entered into as at the date of this report.

Given the refundable earnest money of HK$25,000,000 represents approximately 9.0% of the total asset value of the Company as at 30 June 2010 under the assets ratio (as defined under Rule 19.07(1) of the GEM Listing Rules), it constitutes an advance to entity under Rule 17.15 of the GEM Listing Rules.

CHARGES ON GROUP ASSETS

For the year ended 30 June 2010, the Group did not have any charges on the Group's assets (2009: Nil).

FOREIGN EXCHANGE RISK EXPOSURE

The Group mainly earns revenue and incurs costs in Hong Kong dollars and Renminbi. The Directors consider the impact of foreign exchange risks of the Group is not significant as they will consider the foreign exchange effect of the terms of purchase and sale contracts dealt with foreign enterprises and will not bear unforeseeable foreign currency exchange risks.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2010, the Group had 56 employees (2009: 35) and staff costs (excluding directors' remuneration) amounted to HK$8,299,045 (2009: HK$5,907,015). Remuneration is determined by reference to market conditions and the performance, qualification and experience of individual employee. Other benefits include share option schemes as detailed in the prospectus dated 4 February 2002 and the Directors' Report of this annual report and contributions to statutory mandatory provident fund scheme to its employees in Hong Kong.

EXECUTIVE DIRECTORS

Mr. Cheung Tsun Hin, Samson, aged 31, Chairman and executive Director of the Company, has obtained a Bachelor of Arts degree in Economics by the University of British Columbia, Canada. He has also received a Diploma in Beauty Therapy from the City & Guilds of UK. He has over 7 years of experience in beauty care industry and is an expert in beauty care therapy and treatment practice and professional training. He was appointed as Chairman and executive Director of the Company on 1 August 2008. He is a shareholder and director of the Company's franchisor, Garrick International Limited (formally known as Geneda Skin Care International Limited) ("the Franchisor"). He has also acquired extensive experience in corporate management and finance while serving the position of director of Garrick International Limited since 2000. He is the son of Ms. Keung Wai Fun, Samantha, Chief Executive Officer of the Company.

Ms. Chan Choi Har, Ivy ("Ms. Ivy Chan"), aged 59, one of the founders of the Group and Vice Chairman and executive Director of the Company, is responsible for market development, general administration and financing of the Group. She has over 20 years of experience in real estate development and related investments including hotel projects in the PRC and residential development in Macau. She also has experience in and has been responsible for take-over, initial public offering, equity financing and public listing of several public listed companies in Hong Kong and Toronto.

Mr. Ji He Qun, aged 30, executive Director of the Company, studied in the Institute of Electronic Education of Wuhan Polytechnic University between 1998 and 2000. He has acquired extensive knowledge and experience in telecommunication, shipping and financial services industries. He also has acquired extensive experience in corporate and financial management. He first joined the Company as non-executive Director on 16 July 2009.

NON-EXECUTIVE DIRECTORS

Mr. Chan Shun Kuen, Eric, aged 48, non-executive Director of the Company, holds a master degree in corporate finance and an LLB degree and is an associate member of the Hong Kong Institute of Certified Public Accountants. He had been in the investment banking industry for over 10 years. He is currently an independent non-executive director of Tianjin Tianlian Public Utilities Company Limited, a company listed on the Growth Enterprise Market of the Stock Exchange. He first joined the Company as independent non-executive Director and Chairman of the Audit Committee on 28 September 2004.

INDEPENDENT NON-EXECUTIVE DIRECTORS ("INEDs")

Mr. Chan Sze Hon, aged 37, an INED and Chairman of the Audit Committee and Remuneration Committee of the Company. He holds a Bachelor of Arts Degree in Accountancy from City University of Hong Kong and a Master Degree in Corporate Finance from The Hong Kong Polytechnic University. He is a Certified Public Accountant (Practising) of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He has over 14 years of experience in accounting and financial management and had worked for an international accounting firm in Hong Kong. He is currently an executive director of Fantasia Holdings Group Co., Limited and a non-executive director of Greater China Holdings Limited ("Greater China"), both shares of which are listed on the Main Board of the Stock Exchange. During the period from 18 July 2005 to 12 October 2008, he was an executive director of Greater China. He is also an INED of China Mining Resources Group Limited, whose shares are listed on the Main Board of the Stock Exchange, and an INED of ERA Holdings Global Limited, whose shares are listed on the Growth Enterprise Market of the Stock Exchange. He was appointed as INED of the Company on 7 September 2007.

Mr. Yeung Mario Bercasio, aged 48, INED and member of Audit Committee and Remuneration Committee of the Company, holds a Bachelor of Engineering and a postgraduate certificate in Law from Newcastle Upon Tyne Polytechnic, England and the University of Hong Kong respectively. He is a member of the Law Society of Hong Kong and has extensive experience in corporate finance and direct investment. He was appointed as INED of the Company on 28 December 2004.

Mr. Lam Wai Pong, aged 55, INED and member of Audit Committee and Remuneration Committee of the Company, graduated from University of London with a degree in Civil Engineering. He is a chartered civil engineer. He has extensive experience in civil engineering. He was appointed as INED of the Company on 12 August 2005.

SENIOR MANAGEMENT

Ms. Keung Wai Fun, Samantha ("Ms. Samantha Keung"), aged 56, is Chief Executive Officer of the Company. She was first appointed as the General Manager of the Company in July 2004 and was re-designated as Chief Executive Officer of Blu Spa (Hong Kong) Limited ("BSHK") in May 2006. She is responsible for overseeing the Group's operation, business expansion and product developments. She has over 10 years of experience in beauty care industry and is an expert in beauty care therapy and treatment practice and professional training. She holds the diploma of aesthetician in the International Therapy Examination Council and Confederation of International Beauty Therapy, both are beauty professional bodies based in Europe. In addition, she was awarded the cosmetology diploma in aesthetic treatment by the British Association of Beauty Therapy and Cosmetology Limited as well as the diploma in aesthetician from Frederique Academy of Germany. In 2003, she received her accreditation as a qualified beauty therapist by the Labour and Social Bureau of Guangzhou. At the same time, she has acquired extensive experience in corporate management in the fields of banking, real estate and finance as demonstrated by her past track record, through serving the positions of the vice president of Chase Manhattan Bank from 1984 to 1990, the director of L&D Holding Limited from 1990 to 1994 and the managing director of Center Pacific Holdings Limited from 1994 to 1996. She is a controlling shareholder and director of the Company's Franchisor and a controlling shareholder of Million Fortune Group Limited, the Company's ultimate holding company. Mr. Cheung Tsun Hin, Samson, Chairman and executive Director of the Company, is son of Ms. Samantha Keung.

DIRECTORS' REPORT

The board of Directors (the "Board") of the Company has pleasure in submitting the directors' report together with the audited financial statements of the Group for the year ended 30 June 2010.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 29 to the financial statements. There was no significant change in the principal activities of the Company during the year under review.

RESULTS

Details of the Group's results for the year ended 30 June 2010 are set out in the consolidated income statement and consolidated statement of comprehensive income on pages 32 and 33 of this annual report.

DIVIDENDS

No dividends were paid or proposed to be paid for the year ended 30 June 2010 (2009: Nil), nor has any dividend been proposed since the balance sheet date.

SHARE CAPITAL

During the year, the Company issued 49,800,000 ordinary shares at the placing price of HK$0.80 under a specific mandate on 2 December 2009. The net proceeds from the issue is approximately HK$38,000,000 which was used for towards the possible acquisition of a property in the PRC for setting up a beauty professional training institute of the Group.

Details of movements in the share capital of the Company during the year are set out in note 22 to the financial statements.

CONVERTIBLE BONDS

On 29 April 2010, the Company issued three-year zero coupon convertible bonds due 2013 in the aggregate principal amount of HK$114,000,000 with a conversion price of HK$0.19 (subject to adjustment in accordance with the terms and conditions of the convertible bonds) per ordinary share of HK$0.10 each of the Company. The net proceeds from the issue of the convertible bonds is approximately HK$110,000,000 which was be used for (i) financing the remaining cash payment for the possible acquisition of a property for setting up a beauty professional training institute of the Group (details of which are set out in the announcements of the Company dated 16 December 2009 and 24 February 2010) and the cost of refurbishing and furnishing the training institute with relevant equipment; (ii) development and production of new Blu Spa products; and (iii) general working capital purposes.

Subsequent to the balance sheet date, on 6 August 2010, the convertible bonds in a total principal amount of HK$19,000,000 were converted into 100,000,000 ordinary shares of the Company.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and note 23 to the financial statements respectively.

DISTRIBUTABLE RESERVE

The distributable reserve of the Company as at 30 June 2010 was approximately HK$80,129,196 (2009: HK$12,398,773), details of which are set out in note 23 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 15 to the financial statements.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors who held office during the year and up to the date of this report were:

Executive Directors:
Mr. Cheung Tsun Hin, Samson *(Chairman)*
Ms. Chan Choi Har, Ivy *(Vice Chairman)*
Mr. Ji He Qun
(Appointed as non-executive Director on 16 July 2009 and re-designated from non-executive Director to executive Director on 9 November 2009)

Non-executive Directors:
Mr. Chan Shun Kuen, Eric

INEDs:
Mr. Chan Sze Hon
Mr. Lam Wai Pong
Mr. Yeung Mario Bercasio

The non-executive Directors of the Company were appointed without specific terms but subject to retirement and re-election at annual general meetings of the Company.

None of the Directors or Directors intending to seek re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

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

As at 30 June 2010, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) ("SFO"), which were required (i) to be notified to the Company and the Stock 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 Stock 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
Executive Directors			
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	60,800,000	11.64%
	Interest of spouse	9,480,000 (Note 2)	1.82%
Chief Executive Officer			
Ms. Samantha Keung	Corporate interest	185,682,200 (Note 3)	35.56%

Notes:

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. The above shares are owned by Ms. Sun Guang Hong (the spouse of Mr. Ji He Qun). Mr. Ji He Qun is taken or deemed to be interested in the entire 9,480,000 shares held by his spouse in the Company.

3. 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, a chief executive officer of the Company.

Save as disclosed above, as at 30 June 2010, none of the Directors or chief executives of the Company had any interests or short positions 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 Stock 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 Stock Exchange.

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.

DIRECTORS' INTERESTS IN CONTRACTS

Save as the Franchise Agreement disclosed under the heading "Continuing Connected Transaction" and in note 27 to the financial statements, there were no other contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2010, as far as is known to the Directors and chief executives of the Company, the following person (not being a Director or chief executive of the Company) 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 or which would be required pursuant to section 336 of the SFO to be entered in the register referred to therein:

Long position in shares

Shareholder	Nature of interests	Number of shares	Approximate percentage of shareholding
Queensbury Global Limited	Beneficial owner	185,682,200 (Note 1)	35.56%
Million Fortune Group Limited	Interest of controlled corporation	185,682,200 (Note 1)	35.56%
Ms. Samantha Keung	Interest of controlled corporation	185,682,200 (Note 1)	35.56%
Mr. Ji He Qun	Beneficial owner	60,800,000	11.64%
	Interest of spouse	9,480,000	1.82%

Note:

1. As at 30 June 2010, Queensbury Global Limited owned 185,682,200 ordinary shares of the Company. As Million Fortune Group Limited holds 88.38% interest in the issued share capital of Queensbury Global Limited and Ms. Samantha Keung holds 87.0% interest in the issued share capital of Million Fortune Group Limited, Ms. Samantha Keung is deemed to be interested in all of the 185,682,200 ordinary shares of the Company held by Queensbury Global Limited. Ms. Samantha Keung's indirect interest in these 185,682,200 ordinary shares of the Company is also disclosed in the paragraph headed "Disclosure of the interests and short positions of directors and chief executive 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, Million Fortune Group Limited and Ms. Samantha Keung.

Save as disclosed above, the Directors and chief executives of the Company are not aware of any other person (other than Directors or chief executives of the Company) who, as at 30 June 2010, had any interests or short positions 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 or which would be required pursuant to section 336 of the SFO to be entered in the register referred to therein.

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 INEDs of the Company.

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 30 June 2010, no options had been granted under the Share Option Scheme.

EMOLUMENT POLICY

Remuneration of the Group's employees is determined by reference to market conditions and the performance, qualification and experience of individual employee. Other benefits include share option schemes as detailed in the prospectus dated 4 February 2002 and contributions to statutory mandatory provident fund scheme to its employees in Hong Kong.

Emolument payable to the Directors is determined by reference to their duties and responsibilities with the Group.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 30 June 2010, the amount of purchases attributable to the Group's five largest suppliers represented approximately 99.7% of the Group's total purchases and the amount of sales attributable to the Group's five largest customers represented approximately 97.4% of the Group's total turnover. The Group's total purchases and turnover attributable to its largest supplier and its largest customer were approximately 70.3% and 96.8% respectively.

Save as the Franchise Agreement entered between BSHK and Garrick International Limited, the largest supplier of the Company for the year, disclosed under "Continuing Connected Transactions" below and in note 27 to the financial statements, as far as the Directors are aware, neither the Directors, their associates nor shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interests in the Group's five largest customers or suppliers during the year.

RELATED PARTY TRANSACTIONS

In relation to the related party transactions set out in note 27 to the financial statements, the Board has confirmed that with the exception of those disclosed under "Continuing Connected Transactions" below, there is no transaction which required to make connected transaction disclosures under the GEM Listing Rules for the year ended 30 June 2010.

CONTINUING CONNECTED TRANSACTIONS

On 1 February 2007, BSHK, being a wholly-owned subsidiary of the Company, entered into the Franchise Agreement with the Franchisor, Garrick International Limited, whereby the Franchisor agreed to appoint and BSHK agreed to act as the sole and exclusive distributor of its skin care products under the brand name of "Beauteca" worldwide except Taiwan for a period of three years from 1 July 2007 to 30 June 2010.

The Franchisor is a company incorporated in Hong Kong and is engaged in the trading of beauty and skin care products. As 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 directors of the Franchisor, both of them are connected persons of the Company. In addition, as the entire issued share capital of the Franchisor is owned as to 90% by Ms. Samantha Keung and as to 10% by her son, Mr. Cheung Tsun Hin, Samson, the Franchisor is an associate of Ms. Samantha Keung and Mr. Cheung Tsun Hin, Samson, and a connected person of the Company. Accordingly, the transaction contemplated under the Franchise Agreement constitutes non-exempt continuing connected transaction under Chapter 20 of the GEM Listing Rules.

Pursuant to the Franchise Agreement and Franchise Agreement Annual Caps approved at an extraordinary general meeting held on 5 June 2008, the annual caps are HK$7.80 million, HK$9.36 million and HK$11.23 million respectively for the three years ending 30 June 2010 for the amount payable by BSHK to the Franchisor for the goods purchased. Terms of payment of goods are 50% of the invoiced amount shall be payable upon making the purchase order and the remaining balance shall be payable upon collection of goods.

In relation to the related party transactions as set out in note 27 to the financial statements, for the year ended 30 June 2010, the amount of purchase by BSHK under the Franchise Agreement was HK$6,558,296, which is within the cap.

The continuing connected transactions mentioned above have been reviewed by the INEDs of the Company who have confirmed that the transactions have been entered into:

1. in the ordinary and usual course of business of the Company;

2. either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and

3. in accordance with the relevant agreements governing the transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditor of the Company has provided a letter to the Company's board of directors confirming that the continuing connected transactions:

1. have received the approval of the Company's Board;

2. have been conducted on terms in accordance with the terms of the relevant agreements governing the transactions; and

3. have not exceeded the relevant annual cap as disclosed in the relevant press announcement.

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 year ended 30 June 2010.

RETIREMENT BENEFITS COSTS

Details of the retirement benefit scheme of the Group are set out in note 25 to the financial statements.

Payments to the mandatory provident fund scheme of the Group (notes 9 and 11 to the financial statements) are charged as an expense as they fall due.

MANAGEMENT CONTRACTS

During the year under review, no management and administrative contracts regarding the entire or any major businesses of the Company have been entered into or have existed.

ADVANCES TO AN ENTITY

Save as disclosed under the heading "Possible material acquisitions and disposals of subsidiaries and joint ventures" in Management Discussion and Analysis section on pages 9 to 10 of this annual report, the Group did not have, in its normal and ordinary course of business, any other relevant advance to entity that is required to be disclosed pursuant to Rules 17.15 and 17.22 of the GEM Listing Rules.

COMPETING INTERESTS

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

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

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. The Company has received confirmation from each of the INEDs as regards to their independence to the Company for the year under review pursuant to Rule 5.09 of the GEM Listing Rules and considers that each of the INEDs is independent of the Company.

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 (the "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 annual results for the year ended 30 June 2010 have been reviewed by the Audit Committee.

REMUNERATION COMMITTEE

The Company established a remuneration committee (the "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.

BOARD PRACTICES AND PROCEDURES

During the year 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.

SECURITIES TRANSACTIONS BY DIRECTORS

During the year under review, the Company has adopted a code of conduct regarding securities transactions by directors 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 of all Directors, 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 year under review.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of 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.

AUDITORS

The financial statements have been audited by Messrs. HLM & Co.. A resolution will be submitted to the upcoming annual general meeting of the Company to re-appoint Messrs. HLM & Co. as the Company's auditors.

On behalf of the Board
China AU Group Holdings Limited

Cheung Tsun Hin, Samson
Chairman

Hong Kong, 27 September 2010

CORPORATE GOVERNANCE PRACTICES

For the year ended 30 June 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. Mr. Cheung Tsun Hin, Samson is the Chairman and executive Director of the Company. As Mr. Cheung Tsun Hin, Samson 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 satisfied that the Chairman of the Company should not be subject to retirement by rotation.

SECURITIES TRANSACTIONS BY DIRECTORS

During the year 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 of 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 year under review.

BOARD OF DIRECTORS

The Board currently comprises seven directors, of which three are executive Directors, one is non-executive Director and three are INEDs, namely:

Executive Directors:
Mr. Cheung Tsun Hin, Samson *(Chairman)*
Ms. Ivy Chan *(Vice Chairman)*
Mr. Ji He Qun (Appointed as non-executive Director on 16 July 2009 and re-designated from non-executive Director to executive Director on 9 November 2009)

Non-executive Director:
Mr. Chan Shun Kuen, Eric

INEDs:
Mr. Chan Sze Hon
Mr. Lam Wai Pong
Mr. Yeung Mario Bercasio

The Board has four scheduled meetings at quarterly interval and meets as and when required. During the year ended 30 June 2010, the Board held 22 meetings.

The attendance of the Directors at the Board meetings is as follows:

	Number of attendance
Mr. Cheung Tsun Hin, Samson	22/22
Ms. Ivy Chan	21/22
Mr. Ji He Qun (Appointed on 16 July 2009)	10/21
Mr. Chan Shun Kuen, Eric	18/22
Mr. Chan Sze Hon	18/22
Mr. Lam Wai Pong	21/22
Mr. Yeung Mario Bercasio	19/22

The Board is responsible for approving and monitoring the Group's overall strategies and policies, approving business plans, and assessing the Group's performance and the management's governance. The Board is also responsible for facilitating the success of the Group and its businesses by providing guidelines on and monitoring the Group's affairs.

The Board focuses on overall strategy and policy, in particular the growth and financial performance of the Group.

The day-to-day operations of the Group are delegated by the Board to the executive Directors and senior management. Certain material events are decided by the Board, which includes the annual operations plan, annual financial budget, annual remuneration plan, quarterly, interim and annual financial statements, quarterly, interim and annual profit pre-distribution plan, and material matters which involve corporate development, acquisition or organization adjustment. The Board, through the executive Directors, passes its decisions to the management. The management of the Group is delegated the authority by the Board to take up the day-to-day operations and implementation of the different aspects of the Group's businesses.

The Company appointed three INEDs who have sufficient experience and qualification to carry out their duties. The qualification and experience of the INEDs are set out in the "Directors and Senior Management Profile" contained in this annual report. In addition, the Company has received annual confirmations of independence pursuant to Rule 5.09 of the GEM Listing Rules from all INEDs for the year under review. The Board has assessed their independence and concluded that all INEDs are independent (as defined in the GEM Listing Rules).

Save as disclosed elsewhere in this annual report, to the best knowledge of the Directors, there is no other financial, business, family and other material relationship among members of the Board, and between Chairman and chief executive officer of the Company.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee on 30 March 2005. The Remuneration 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 Remuneration Committee.

The Remuneration Committee is largely responsible for making recommendations to the Board on Company's policies and structures in connection with the remuneration of Directors, establishing a set of formal and transparent procedures for the formulation of the remuneration policy. It is also responsible for determining the specific remuneration packages of all executive Directors and senior management, reviewing and approving the performance-based remuneration and the compensation payable to executive Directors and senior management as a result of their departure from office, termination of their employment, dismissal and removal, and ensuring that no directors or their associates are involved in determining their own remuneration.

During the year under review, the Remuneration Committee had reviewed the remuneration of the Directors and held one meeting, and the attendance of the members of the Remuneration Committee at the meeting is as follows:

	Number of attendance
Mr. Chan Sze Hon	1/1
Mr. Lam Wai Pong	1/1
Mr. Yeung Mario Bercasio	1/1

AUDITORS' REMUNERATION

During the year, the remuneration paid to the auditors of the Company, HLM & Co., Certified Public Accountants, is set out as follows:

	HK$
Audit services rendered	200,000
Non-audit services rendered	60,500

AUDIT COMMITTEE

The Company established the Audit Committee on 10 December 2001 with written terms of reference which precisely specify its powers and duties.

The Audit Committee currently comprises three members, 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. All of the members of the Audit Committee are INEDs of the Company. The primary duties of the Audit Committee are to advise the Board on the appointment and removal of external auditors, approve the remuneration and terms of appointment of the external auditors, as well as review and supervise the financial reporting process and internal control system of the Group and review the Company's annual reports and accounts and interim and quarterly reports, and provide advice and recommendations to the Board thereon.

During the year under review, the Audit Committee had reviewed the Group's unaudited quarterly reports for the three months and nine months ended 30 September 2009 and 31 March 2010 respectively and half-year report for the six months ended 31 December 2009. The Audit Committee considered that these reports had been prepared in compliance with the accounting standards and GEM Listing Rules. The Audit Committee had also reviewed the Group's annual report and accounts for the year ended 30 June 2010.

The Audit Committee held four meetings during the year under review.

The attendance of the members of the Audit Committee at the meetings is as follows:

	Number of attendance
Mr. Chan Sze Hon	4/4
Mr. Lam Wai Pong	4/4
Mr. Yeung Mario Bercasio	4/4

INTERNAL CONTROL

The Board is responsible for the maintenance of a sound and effective internal control system of the Group.

The internal control system of the Group includes a well-defined management structure with limits of authority which is designed for the achievement of business objectives, safeguard assets against unauthorized use or disposition, to ensure maintenance of proper books and records for the provision of reliable financial information for internal use or publication, and to ensure compliance with relevant legislations and regulations.

The Company appointed an independent accountant to conduct a review of the Group's internal control system for the year under review. The Directors concluded that they are satisfied that the prevailing internal control systems as appropriate to the Group's operations are in place and have been implemented properly. No significant areas of improvement that are required to be brought to the attention to the Audit Committee are revealed.

RESPONSIBILITY OF THE DIRECTORS AND AUDITORS TOWARDS THE ACCOUNTS

The Directors confirm that it is their responsibilities for preparing the Group's financial statements. The Directors shall ensure that the financial statements of the Group have been prepared in accordance with statutory requirements and applicable accounting standards. The statement of the auditors of the Company regarding their responsibilities for reporting the Group's financial statements is set out in the Independent Auditors' Report on page 30 of this annual report.

RELATIONS WITH SHAREHOLDERS

The management undertakes that it will maintain transparency of the highest standard, and adopts a policy of disclosing relevant information to its shareholders in an open and timely manner. The Company also communicates with its shareholders via its annual, interim and quarterly reports.

恒健會計師行
HLM & Co.
Certified Public Accountants

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TO THE MEMBERS OF CHINA AU GROUP HOLDINGS LIMITED
中國金豐集團控股有限公司
(Formerly known as "Blu Spa Holdings Limited富麗花 • 譜控股有限公司)
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China AU Group Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 32 to 87, which comprise the consolidated and Company statement of financial position as at 30 June 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30 June 2010 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to Note 6 to the consolidated financial statements. As at 30 June 2010, the Group's major customer is Shenzhen Beauty Concept Trading Limited ("Beauty Concept'), its sole distributor in the PRC. The total sales to Beauty Concept amounted to HK$96,466,768 which accounted for approximately 96.8% of the total turnover for the year ended 30 June 2010. The Group's exposure to operation risk and credit risk is primarily attributable to heavy reliance on the Group's sole distributor in the PRC.

HLM & Co.
Certified Public Accountants
Hong Kong, 27 September 2010

CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2010

	NOTES	2010 HK$	2009 HK$
TURNOVER	7	**99,662,281**	49,294,137
COST OF SALES		**(32,599,502)**	(17,153,101)
Gross profit		**67,062,779**	32,141,036
Other revenue		**477,380**	255,922
Distribution costs		**(16,090,302)**	(7,952,828)
Administrative expenses		**(13,913,380)**	(13,030,512)
Finance costs	8	**(3,024,666)**	–
Profit before taxation		**34,511,811**	11,413,618
Taxation	10	**(7,398,445)**	–
Profit for the year	11	**27,113,366**	11,413,618
Dividends	12	**–**	–
		HK cents	*HK cents*
Earnings per share			
Basic	13	**5.41**	2.80
Diluted	13	**2.46**	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2010

	2010 *HK$*	2009 *HK$*
PROFIT FOR THE YEAR	**27,113,366**	11,413,618
OTHER COMPREHENSIVE INCOME/(EXPENSE)		
Exchange differences arising on translation of foreign operations	**3,787**	(18,858)
Total comprehensive income for the year	**27,117,153**	11,394,760

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2010

	NOTES	2010 HK$	2009 HK$
Non-current assets			
Intangible assets	14	**8,424,000**	9,360,000
Property, plant and equipment	15	**2,676,308**	1,418,240
		11,100,308	10,778,240
Current assets			
Inventories	17	**449,584**	169,140
Trade receivables	18	**83,739,478**	45,031,120
Deposits, prepayments and other receivables	19	**181,114,284**	31,876,639
Bank balances and cash		**1,751,687**	1,116,547
		267,055,033	78,193,446
Current liabilities			
Deposits from customers		**2,914,819**	1,724,514
Accruals and other payables		**3,084,234**	2,655,282
Amounts due to a director/directors	20	**114,994**	7,674
Amounts due to a related company	24	**4,962,754**	2,404,457
Amounts due to a related party	24	**122,770**	47,837
Provision for taxation		**7,403,193**	4,691
		18,602,764	6,844,455
Net current assets		**248,452,269**	71,348,991
Total assets less current liabilities		**259,552,577**	82,127,231
Non-current liabilities			
Convertible bonds	21	**71,687,938**	–
Total net assets		**187,864,639**	82,127,231
Capital and reserves			
Share capital	22	**52,220,000**	47,240,000
Reserves		**135,644,639**	34,887,231
		187,864,639	82,127,231

The consolidated financial statements on pages 32 to 87 were approved and authorised for issue by the Board of directors on 27 September 2010 and are signed on its behalf by:

Director *Director*

STATEMENT OF FINANCIAL POSITION

At 30 June 2010

	NOTES	2010 *HK$*	2009 *HK$*
Non-current asset			
Interests in subsidiaries	16	**159,047,795**	59,525,428
Current assets			
Deposits and other receivables	19	**46,000,000**	–
Bank balances		**109,880**	1,051,100
		46,109,880	1,051,100
Current liabilities			
Amounts due to a director	20	**1,000**	1,000
Accruals and other payables		**1,119,541**	936,755
		1,120,541	937,755
Net current assets		**44,989,339**	113,345
Total assets less current liabilities		**204,037,134**	59,638,773
Non-current liabilities			
Convertible bonds	21	**71,687,938**	–
Total net assets		**132,349,196**	59,638,773
Capital and reserves			
Share capital	22	**52,220,000**	47,240,000
Reserves	23	**80,129,196**	12,398,773
		132,349,196	59,638,773

Director　　　　*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2010

	Share capital	Share premium	Merger difference	Convertible bonds equity reserve	Translation reserve	Accumulated losses	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
THE GROUP							
At 1 July 2008	39,368,000	49,785,364	22,734,577	–	(6,288)	(56,295,602)	55,586,051
Profit for the year	–	–	–	–	–	11,413,618	11,413,618
Other comprehensive expense for the year:							
Exchange differences arising from translation of operations outside of Hong Kong	–	–	–	–	(18,858)	–	(18,858)
Total comprehensive (expense) income for the year	–	–	–	–	(18,858)	11,413,618	11,394,760
Issue of new shares pursuant to the subscription agreement dated 27 April 2009	7,872,000	7,872,000	–	–	–	–	15,744,000
Transactions costs attributable to issue of new shares	–	(597,580)	–	–	–	–	(597,580)
At 30 June 2009 and 1 July 2009	47,240,000	57,059,784	22,734,577	–	(25,146)	(44,881,984)	82,127,231
Profit for the year	–	–	–	–	–	27,113,366	27,113,366
Other comprehensive income for the year:							
Exchange differences arising from translation of operations outside of Hong Kong	–	–	–	–	3,787	–	3,787
Total comprehensive income for the year	–	–	–	–	3,787	27,113,366	27,117,153
Issue of new shares pursuant to the placing agreement dated 19 August 2009	4,980,000	34,860,000	–	–	–	–	39,840,000
Transactions costs attributable to issue of new shares	–	(1,785,446)	–	–	–	–	(1,785,446)
Recognition of equity component of convertible bonds	–	–	–	40,565,701	–	–	40,565,701
At 30 June 2010	**52,220,000**	**90,134,338**	**22,734,577**	**40,565,701**	**(21,359)**	**(17,768,618)**	**187,864,639**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2010

	2010 HK$	2009 HK$
OPERATING ACTIVITIES		
Profit before taxation	**34,511,811**	11,413,618
Adjustment for:		
Interest income	**(118)**	(180)
Interest expense	**3,024,666**	–
Depreciation on property, plant and equipment	**554,595**	330,604
Loss on written off of property, plant and equipment	**244,225**	–
Amortisation of intangible assets	**936,000**	936,000
Allowance for doubtful debts	**111,439**	–
Written off of deposits, prepayments and other receivables	**–**	29,724
Written off of accruals and other payables	**(476,452)**	(254,946)
Written back of allowance for inventories	**–**	(30,984)
Operating cash flow before movements in working capital	**38,906,166**	12,423,836
Increase in inventories	**(280,444)**	(87,720)
Increase in trade receivables	**(38,819,797)**	(35,400,619)
Increase in deposits, prepayments and other receivables	**(149,237,645)**	(30,850,693)
Increase (decrease) in accruals and other payables	**905,404**	(4,842,157)
Increase (decrease) in amounts due to a director/directors	**107,320**	(644,121)
Increase (decrease) in amounts due to a related company	**2,558,297**	(2,112,173)
Increase in amounts due to a related party	**74,933**	47,837
Increase in deposits from customers	**1,190,305**	339,116
Cash used in operations	**(144,595,461)**	(61,126,694)
Interest paid	**(893,370)**	–
NET CASH USED IN OPERATING ACTIVITIES	**(145,488,831)**	(61,126,694)
INVESTING ACTIVITIES		
Interest received	**118**	180
Purchases of property, plant and equipment	**(2,056,888)**	(1,074,192)
NET CASH USED IN INVESTING ACTIVITIES	**(2,056,770)**	(1,074,012)
FINANCING ACTIVITIES		
Proceed from issue of convertible bonds	**110,122,343**	–
Proceed from issue of new shares	**39,840,000**	15,744,000
Payment of transaction costs attributable to issue of shares	**(1,785,446)**	(597,580)
NET CASH GENERATED FROM FINANCING ACTIVITIES	**148,176,897**	15,146,420
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**631,296**	(47,054,286)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**3,844**	(18,867)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**1,116,547**	48,189,700
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**1,751,687**	1,116,547
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	**1,751,687**	1,116,547

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 addresses of the registered office and principal place of business of the Company are disclosed in the corporation information section of the annual report.

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

The Company is an investment holding company. Particulars of the principal activities of its subsidiaries are set out in note 29.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Company has applied, for the first time, the following new or revised standards, amendments and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants with effect from the beginning of current accounting period:

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

Except as described below, the adoption of the new and revised HKFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting period.

HKAS 1 (Revised) Presentation of Financial Statements

The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions which owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income and expenses, either in one single statement, or in two linked statements. The Group has elected to present two statements.

The new format for the consolidated statement of comprehensive income and the consolidated statement of change in equity has been adopted in this financial report and corresponding amounts have been restated to confirm to the new presentation. The Standard introduces the accounts of "Other comprehensive income/expense for the year" and "Total comprehensive income/expense for the year" into the consolidated statement of comprehensive income. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

HKFRS 7 (Revised) Financial Instrument: Disclosure

The amended Standard requires additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. In addition, reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between Level 1 and Level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures.

HKFRS 8 Operating segments

This Standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary and secondary reporting segments of the Group. Adoption of this Standard did not have any significant effect on the financial position or performance of the Group.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

The Group has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[4]
HKFRS 1 (Amendments)	Additional Exemptions for First-time Adopters[1]
HKFRS 1 (Amendments)	Limited Exemptions from Comparative HKFRS 7 Disclosures for First-time Adopters[3]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[1]
HKFRS 9	Financial Instruments (relating to the classification and measurement of financial assets)[6]
HKAS 24 (Revised)	Related Party Discloures[5]
HKAS 32 (Amendments)	Classification of Rights Issues[2]
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[5]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[3]

1 Effective for annual periods beginning on or after 1 January 2010
2 Effective for annual periods beginning on or after 1 February 2010
3 Effective for annual periods beginning on or after 1 July 2010
4 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
5 Effective for annual periods beginning on or after 1 January 2011
6 Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties, available-for-sale investments and financial assets at fair value through profit or loss, which are measured at fair values as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with the new HKFRSs issued by the HKICPA. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30 June each year. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated financial statement from the date that control commenced or up to the date that control ceased. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All significant intra-group transactions, balances, income and expenses have been eliminated on consolidation.

In the Company's statement of financial position, the investment in a subsidiary is stated at cost less provision for impairment losses.

Investment in subsidiaries

A subsidiary is a company that is controlled by the Company, where the Company has the power to govern the financial and operating policies of such company so as to obtain benefits from its activities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, returns and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

- Sale of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred to customers.

- Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

- Royalty fee income is recognised on the accrual basis in accordance with the substance of the relevant agreement in related to the sales of goods when goods are delivered and title has passed.

- Services income is recognised when services are provided. Payments that are related to service not yet rendered are shown as deposits from customers in consolidated financial position.

Trademarks/tradenames

Trademarks/tradenames represent purchase cost for the trademarks/tradenames, initial fees for the registration of the trademarks/tradenames in the respective country/place of registration and fees for obtaining the relevant approvals for the sales and distribution of personal care products within the respective country/place, are stated at cost less amortisation and accumulated impairment loss. The cost of the trademarks/tradenames is amortised over a period of 4 to 20 years.

Deposits and prepayments

Deposits and prepayments are measured at cost on initial recognition. Deposits and prepayments will be charged to consolidated income statement or recognised as relevant assets in the year in which they are incurred.

Borrowing cost

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as expenses in the year in which they are incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and amortisation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Furniture, fixture and equipment	20%
Leasehold improvement	20%
Plant and machinery	20%
Motor vehicle	20%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the sale proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Impairment of tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the impairment loss is treated as a revaluation decrease under that accounting standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that accounting standard.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method.

Financial instruments

Financial assets and financial liabilities are recognised on the statement of when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables, held-to-maturity investments and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designed as at FVTPL, of which interest income is included in net gains or losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Financial assets at fair value through profit or loss

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 Financial Instruments: Recognition and Measurement ("HKAS 39") permits the entire combined contract (asset or liability) to be designated as at FVTPL.

At the end of each reporting period subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of reporting period subsequent to initial recognition, loans and receivables (including trade and other receivables) are carried at amortised cost using the effective interest method, less any identified impairment losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Available-for-sale financial assets

Available-for-sale ('AFS") financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments. The Group designated unlisted equity securities as AFS financial assets.

At the end of each reporting period subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see accounting policy in respect of impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it is becoming probable that the borrower will enter bankruptcy or financial re-organisation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 180 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis other than those financial liabilities designated as at FVTPL, of which the interest expense is included in net gains or losses.

Financial liabilities at fair value through profit or loss

Financial liabilities at FVTPL has two subcategories, including financial liabilities held for trading and those designated at FVTPL on initial recognition.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- on initial recognition it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Financial liabilities at fair value through profit or loss (Continued)

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excluded any interest paid on the financial liabilities.

Other financial liabilities

Other financial liabilities including trade and other payables, bank borrowings and obligations under finance leases are subsequently measured at amortised cost, using the effective interest rate method.

Convertible bonds

Convertible bonds issued by the Company that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible bonds and the fair value assigned to the liability component, representing the conversion option for the holder to convert the bonds into equity, is included in convertible bonds equity reserve.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Convertible bonds (Continued)
At the end of reporting period, the liability component of convertible bonds is carried at amortised cost using the effective interest method. The conversion option classified as equity will remain in the convertible bonds equity reserve until the conversion option is exercised, in which case, the balance stated in the convertible bonds equity reserve will be transferred to share premium. Where the conversion option remains unexercised at the maturity date, the balance stated in the convertible bonds equity reserve will be released to accumulated losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the lives of the convertible bonds using the effective interest method.

Equity instruments
Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Embedded derivatives
Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

Financial guarantee contracts
A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as FVTPL is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contact. At the end of the reporting period, the Group measures the financial guarantee contract at the higher of:

- the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and

- the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when a financial asset is transferred, the Group has transferred substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risk and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill of from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity are recorded in its functional currency at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the financial position date. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income in the consolidated financial statements and will be reclassified from equity to profit or loss on disposal of the foreign operation. Exchange differences arising on the re-translation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the re-translation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve.

Provision

Provision are recognised when the Group has a present obligation as a result of past events; and it is probable that the Group will be required to settle the obligation. Provision are measured at the directors' best estimate of the expenditure required to settle the obligation at the end of reporting period, and are discounted to present value where the effect is material.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Retirement benefits costs

Payments to defined contribution retirement benefit plans are charged as expenses as they fall due.

Cash and cash equivalents

Cash and cash equivalents represent cash at bank and on hand, time deposits with banks and other financial institutions, and short-term liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of cash and subject to an insignificant risk of change in value, having been within three months of maturity at acquisition. For the purpose of the consolidated statement of cash flows, bank overdrafts and bank loans, if any, which are repayable on demand and form an integral part of an enterprise's cash managements are also included as component of cash and cash equivalents.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future and other sources of estimation uncertainty at the end of 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 discuss below.

Depreciation and amortisation

The Group depreciates the property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual values, using the straight line method. The estimated useful lives reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. The residual values reflect the directors' estimated amount that the Group would currently obtain from disposal of the assets, after deducting the estimated costs of disposal, if the assets were already of the age and in the condition expected at the end of its useful life.

Allowance for bad and doubtful debts

The Group's provision policy for bad and doubtful debts is based on the evaluation of collectability and ageing analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required.

5. CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as debt divided by total assets. Debt included convertible bonds and total assets included non-current assets and current assets as shown in the consolidated statement of financial position.

At 30 June 2010, the gearing ratio is 25.8 (2009: Nil). The increase in the gearing ratio during the year resulted from issuing of the convertible bonds.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables, convertible bonds and trade and other payables. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The Management manages and monitors these exposures closely to ensure appropriate measures are implemented on a timely and effective manner.

Cash flow and fair value interest rate risk

Except for the cash and cash equivalents which carry floating interest rate, the Group has no significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates.

Sensitivity analysis
Assuming the balance as 30 June 2010 was the amount for the whole year, if the interest rate was 50 basis points higher or lower and all other variables were held constant, the Group's profit for the year ended 30 June 2010 would increase or decrease by HK$8,758 (2009: HK$5,583).

Foreign exchange risk

The Group and the Company's functional currency is Hong Kong dollar. The Group's transactions, trade receivables and trade payables are mainly denominated in Hong Kong dollars, renminbi and Taiwanese dollars.

The Group has certain investments in foreign operations, whose net assets or net liabilities are exposed to foreign currency translation risk. However, as the net foreign exchange exposure of the foreign operations is not significant, the Management does not anticipate any material foreign currency risk and the Group does not actively hedge this foreign exchange exposure.

The Group periodically reviews monetary assets and liabilities held in currencies other than the functional currency to ensure that net exposure is kept at an acceptable level. Management does not anticipate any material foreign currency risk in this aspect, but will consider hedging significant foreign currency exposure should the need arise.

Commodity price risk management

The Group is exposed to commodity price risk due to certain factors, such as level of demand and supply in the market and government policy and regulations. Such exposure mainly arises from its purchase of raw materials and the profit margin on sale of its finished products may be affected if the increase in cost of raw materials increases and the Group is unable to pass such cost increases to its customers. In addition, the Group is also subject to fluctuations in the selling price of its finished products due to competition and market demand.

The Group does not have any formal hedging policy for such exposure. However, the Group will closely monitor the costing and consider to take appropriate action should the need arise.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Fair values

As at 30 June 2010, the carrying amount of cash and cash equivalents, prepayments, deposits and other receivables, accrued liabilities and other payables approximated their fair values due to the short-term maturities of these assets and liabilities.

Fair values on financial instruments

The Group has no equity investment held for trading as at 30 June 2010, therefore, the Group does not have any investment price risk exposure.

(i) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at 30 June 2010 across the three levels of the fair value hierarchy defined in HKFRS7 Financial Instruments: Disclosures, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments.

- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data.

- Level 3 (lowest level): fair value measured using valuation techniques in which any significant input is not based on observable market data.

At 30 June 2010, the Group had no financial instruments carried at fair value which are based on the Level 1, Level 2 and Level 3 of the fair value hierarchy.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Fair values (Continued)

Fair values on financial instruments (Continued)

(ii) Fair values of financial instruments carried at other than fair value

The carrying amounts of the Group's and the Company's financial instruments are carried at cost less accumulated impairments were not materially different from their fair values as at 30 June 2010.

	2010		2009	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
The Group				
Trade receivables	**83,739**	**83,739**	45,031	45,031
Deposits, prepayments and other receivables	**181,114**	**181,114**	31,877	31,877
Bank balances and cash	**1,752**	**1,752**	1,117	1,117
Deposits from customers	**(2,915)**	**(2,915)**	(1,725)	(1,725)
Accruals and other payables	**(3,084)**	**(3,084)**	(2,655)	(2,655)
Amounts due to a director/directors	**(115)**	**(115)**	(8)	(8)
Amounts due to a related company	**(4,963)**	**(4,963)**	(2,404)	(2,404)
Amounts due to a related party	**(123)**	**(123)**	(48)	(48)

Estimation of fair value

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Change in assumption could significantly affect the estimates.

The carrying values of the trade receivable, other receivables, deposits and prepayments, bank and cash balances, other payables and accrued charges, approximate their fair value because of the short maturities of these instruments.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk management

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 30 June 2010 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to minimize the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade debt to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management considers that the Group's credit risk is significant reduced.

The credit policy of the customers is assessed based on their financial positions, past experience and other factors. The Group has policies in place to ensure that sales of products are made to customers with appropriate credit histories.

The Group has concentration of credit risk as 99.6% (2009: 99.5%) of the total trade receivables was due from the Group's sole distributor in the PRC, Shenzhen Beauty Concept Trading Limited 深圳市美麗概念貿易有限公司 ("Beauty Concept").

Operation risk management

The Group's exposure to operation risk is primarily attributable to heavy reliance on Beauty Concept, the sole distributor of the Group in the PRC, for the sales of the Group's products and on a related company, Garrick International Limited ("Garrick"), for the supply of beauty and skin care products.

The Group's total sales to Beauty Concept amounted to HK$96,466,768 (2009: HK$47,243,187) which accounted for approximately 96.8% (2009: 95.8%) of the Group's total turnover for the year ended 30 June 2010. The directors are closely monitoring the performance and financial position of Beauty Concept and are planning to expand its sales channels to reduce the concentration of the operation risk.

The Group's purchase from Garrick amounted to HK$6,558,296 (2009: HK$8,749,716) which accounted for approximately 28.2% (2009: 76.4%) of the Group's total purchase for the year ended 30 June 2010.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the Group's funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities, convertible bonds and borrowing facilities, by continuously monitoring forecast and actual cash flows, carrying out fund raising activities and matching the maturity profiles of financial assets and liabilities. The maturity profile of the Group's financial liabilities at the end of reporting period based on contractual undiscounted payments is summarized below:

	2010				
	Weighted average effective interest rate	**On demand**	**Within 1 year**	**2-5 years**	**Total**
	HK$	***HK$***	***HK$***	***HK$***	***HK$***
Deposits from customers	**N/A**	**2,914,819**	**–**	**–**	**2,914,819**
Accruals and other payables	**N/A**	**3,084,234**	**–**	**–**	**3,084,234**
Amounts due to a director	**N/A**	**114,994**	**–**	**–**	**114,994**
Amount due to a related company	**N/A**	**4,962,754**	**–**	**–**	**4,962,754**
Amount due to a related party	**N/A**	**122,770**	**–**	**–**	**122,770**
Convertible bonds (included equity portion)	**17.75%**	**–**	**–**	**114,000,000**	**114,000,000**
		11,199,571	**–**	**114,000,000**	**125,199,571**

	2009				
	Weighted average effective interest rate	On demand	Within 1 year	2-5 years	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Deposits from customers	N/A	1,724,514	–	–	1,724,514
Accruals and other payables	N/A	2,655,282	–	–	2,655,282
Amounts due to directors	N/A	7,674	–	–	7,674
Amount due to a related company	N/A	2,404,457	–	–	2,404,457
Amount due to a related party	N/A	47,837	–	–	47,837
Convertible bonds	N/A	–	–	–	–
		6,839,764	–	–	6,839,764

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

Subsequent to the end of reporting period, the Company had signed a binding the sales & purchase agreement ("S&P Agreement"), pursuant to which a wholly-owned subsidiary of the Company has agreed to acquire 70% of the entire issued share capital of Vertical Signal Investments Limited and the loan of approximately HK$55,679,000 at an aggregate consideration of HK$80,000,000 (the "Consideration") subject to fulfillment of certain conditions.

As described in note 28(b), an aggregate amount of HK$45,000,000 had been paid to the Vendor as deposit during the period, the remaining balance of HK$35,000,000 is payable by cash or by issue of zero coupon convertible notes due 2015 of the Company (or a combination of both) at the discretion of the Company. The conversion price of the convertible notes is set at HK$0.548 per share, subject to adjustment. The bondholders shall have the right at any time after three months from the date of issue of the bonds to the date falling on the 14th day immediately prior the date of maturity of the bonds to convert any outstanding amount of the bonds into the shares of the Company at the conversion price.

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

Application of HKFRS 8 Operating Segments

The Group has adopted HKFRS 8 Operating Segments with effect from 1 July 2009. HKFRS 8 is a disclosure Standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purposes of allocating resources to segments and assessing their performance. In contrast, the predecessor Standard (HKAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and returns approach. In the past, the Group's primary reporting segment was business segments. The adoption of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14.

For management purposes, the Group is currently organized into five operating segments, namely the sales of beauty equipment, the sales of beauty products, the royalty fee income, the therapy services and the provision of training courses.

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Segment revenue and results

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

	The People's Republic of China ("PRC") HK$	Hong Kong HK$	Consolidated HK$
For the year ended 30 June 2010			
TURNOVER			
External sales			
– Sales of beauty equipment	76,000,000	–	76,000,000
– Sales of beauty products	9,878,880	584,586	10,463,466
– Royalty fee income	8,587,888	–	8,587,888
– Therapy services	–	2,610,927	2,610,927
– Provision of training courses	2,000,000	–	2,000,000
Total revenue	96,466,768	3,195,513	99,662,281
RESULT			
Segment result	67,288,308	(225,529)	67,062,779
Unallocated corporate incomes			477,262
Unallocated corporate expenses			(30,003,682)
Interest income			118
Finance costs			(3,024,666)
Taxation			(7,398,445)
Profit for the year			27,113,366

The geographical segments were analysed in accordance with the ultimate destination where the products are sold or services are provided based on knowledge of the Directors.

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Segment revenue and results (Continued)

	The People's Republic of China ("PRC") HK$	Hong Kong HK$	Consolidated HK$
For the year ended 30 June 2009			
TURNOVER			
External sales			
– Sales of beauty equipment	28,000,000	–	28,000,000
– Sales of beauty products	13,134,141	130,871	13,265,012
– Royalty fee income	4,109,046	–	4,109,046
– Therapy services	–	1,920,079	1,920,079
– Provision of training courses	2,000,000	–	2,000,000
Total revenue	47,243,187	2,050,950	49,294,137
RESULT			
Segment result	35,973,884	(3,832,848)	32,141,036
Unallocated corporate incomes			255,742
Unallocated corporate expenses			(20,983,340)
Interest income			180
Finance costs			–
Taxation			–
Profit for the year			11,413,618

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Segment assets and liabilities

BUSINESS SEGMENT	Sales of beauty equipment HK$	Sales of beauty products HK$	Therapy services HK$	Royalty fee income HK$	Provision of training courses HK$	Consolidated HK$
2010						
ASSETS						
Segment assets	125,038,138	40,465,124	–	12,698,629	47,000,000	225,201,891
Unallocated corporate assets						52,953,450
Consolidated total assets						278,155,341
LIABILITIES						
Segment liabilities	–	(4,962,754)	(2,914,819)	–	–	(7,877,573)
Unallocated corporate liabilities						(10,725,191)
Convertible bonds						(71,687,938)
Consolidated total liabilities						(90,290,702)
Additions of property, plant and equipment						2,056,888
Depreciation and amortisation						1,490,595

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Segment assets and liabilities (Continued)

BUSINESS SEGMENT	Sales of beauty equipment *HK$*	Sales of beauty products *HK$*	Therapy services *HK$*	Royalty fee income *HK$*	Provision of training courses *HK$*	Consolidated *HK$*
2009						
ASSETS						
Segment assets	35,420,600	14,752,527	–	5,278,593	2,000,000	57,451,720
Unallocated corporate assets						31,519,966
Consolidated total assets						88,971,686
LIABILITIES						
Segment liabilities	–	(2,404,457)	(1,724,514)	–	–	(4,128,971)
Unallocated corporate liabilities						(2,715,484)
Convertible bonds						–
Consolidated total liabilities						(6,844,455)
Additions of property, plant and equipment						1,074,192
Depreciation and amortisation						1,266,604

Revenue reported above represents revenues generated from external customers. There were no inter-segment sales during the year 2010 (2009: Nil).

Segments profit/(loss) represents profit earned or loss incurred by each segment without allocation of corporate administration costs including Director's salaries, investment and other income and finance costs, and income tax expense. This is the measure reported to the chief operation decision maker for the purposes of resource allocation and assessment of segment performance.

For the purposes of monitoring segment performance and allocating resources between segments, all assets and liabilities are allocated to reportable segments other than those assets and liabilities related to corporate administration.

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Geographical information

GEOGRAPHICAL SEGMENT	PRC *HK$*	Hong Kong *HK$*	Consolidated *HK$*
2010			
ASSETS			
Segment assets	**254,401,891**	**10,611,273**	**265,013,164**
Unallocated corporate assets			**13,142,177**
Consolidated total assets			**278,155,341**
LIABILITIES			
Segment liabilities	**–**	**(74,602,757)**	**(74,602,757)**
Unallocated corporate liabilities			**(15,687,945)**
Consolidated total liabilities			**(90,290,702)**
2009			
ASSETS			
Segment assets	44,964,883	65,320	45,030,203
Unallocated corporate assets			43,941,483
Consolidated total assets			88,971,686
LIABILITIES			
Segment liabilities	–	(1,724,514)	(1,724,514)
Unallocated corporate liabilities			(5,119,941)
Consolidated total liabilities			(6,844,455)

Analysis of capital expenditure and depreciation by geographical market is not presented because, in the opinion of the Directors, there is no direct relationship between geographical market and the location of the capital assets.

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Geographical information (Continued)

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2010	2009	**2010**	2009
	HK$	*HK$*	***HK$***	*HK$*
Hong Kong	**10,611,273**	65,320	**2,056,888**	1,074,192
PRC	**254,401,891**	44,964,883	**–**	–
	265,013,164	45,030,203	**2,056,888**	1,074,192

Information about major customer

Revenue arising from sales of beauty equipment, sales of beauty products, royalty fee income and provision of training courses of approximately HK$96,466,768 respectively (2009: HK$47,243,187) are arose from sales to the Group's largest customer.

8. FINANCE COSTS

	2010	2009
	HK$	*HK$*
Interest expenses on loan from financial institution	**893,370**	–
Imputed interest on convertible bonds	**2,131,296**	–
	3,024,666	–

9. DIRECTORS' AND EMPLOYEES' REMUNERATION

(a) Directors' remuneration

The emolument paid or payable to each of the seven (2009: six) Directors were as follows:

2010	Fees	Other emoluments: Salaries and other benefits	Other emoluments: Retirement benefit scheme contributions	Total emoluments
	HK$	*HK$*	*HK$*	*HK$*
Executive Directors				
Chan Choi Har, Ivy	120,000	1,200,000	12,300	1,332,300
Cheung Tsun Hin, Samson	120,000	360,000	12,300	492,300
Ji He Qun*	–	–	–	–
Non-executive Directors				
Chan Shun Kuen, Eric	120,000	–	–	120,000
Independent Non-executive Directors				
Yeung Mario Bercasio	120,000	–	–	120,000
Lam Wai Pong	120,000	–	–	120,000
Chan Sze Hon	120,000	–	–	120,000
	720,000	1,560,000	24,600	2,304,600

* Appointed on 16 July 2009

In the year ended 30 June 2010, no Directors had waived any fees or emoluments, and these were no amount paid or payable to the Directors as an inducement to join or upon joining the Company.

9. DIRECTORS' AND EMPLOYEES' REMUNERATION (Continued)

(a) Directors' remuneration (Continued)

2009	Fees	Other emoluments: Salaries and other benefits	Other emoluments: Retirement benefit scheme contributions	Total emoluments
	HK$	HK$	HK$	HK$
Executive Directors				
Chan Choi Har, Ivy	110,000	1,200,000	12,300	1,322,300
Cheung Tsun Hin, Samson	110,000	360,000	12,450	482,450
Non-executive Directors				
Chan Shun Kuen, Eric	110,000	260,000	–	370,000
Independent Non-executive Directors				
Yeung Mario Bercasio	110,000	260,000	–	370,000
Lam Wai Pong	110,000	260,000	–	370,000
Chan Sze Hon	110,000	98,000	–	208,000
	660,000	2,438,000	24,750	3,122,750

(b) Employees' emoluments

The five highest paid employees included two (2009: four) Directors, details of whose remunerations are set out in note 9(a) above. The remunerations paid to the five highest paid employees (including two Directors) are as follows:

	2010	2009
	HK$	*HK$*
Salaries and other benefits	**3,747,000**	3,720,000
Retirement benefit scheme contributions	**61,500**	37,050
	3,808,500	3,757,050

The emoluments are within the following bonds.

	2010 No. of employees	2009 No. of employees
HK$Nil – HK$1,000,000	**3**	3
HK$1,000,001 – HK$1,500,000	**2**	2
	5	5

10. TAXATION

	2010	2009
	HK$	*HK$*
The charge comprises:		
Company and subsidiaries		
Current year profits tax – Hong Kong	**6,906,562**	–
Under-provision in prior years	**491,883**	–
Deferred tax		
Current year	**–**	–
Taxation attributable to the Group	**7,398,445**	–

Hong Kong Profits Tax is calculated at 16.5% (2009: 16.5%) of the estimated assessable profits for the year.

Taxation arising in other regions in the PRC is calculated in accordance with the relevant laws of the PRC.

The charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2010	2009
	HK$	*HK$*
Profit before taxation	**34,511,811**	11,413,618
Tax at applicable rate	**5,694,449**	1,883,247
Tax effect of non-deductible expenses	**1,279,949**	1,013,123
Tax effect of non-taxable revenues	**(153)**	(47,304)
Tax effect on temporary differences not recognised	**(67,683)**	(10,069)
Utilisation of tax losses previously not recognised	**–**	(2,838,875)
Effect of different tax rate of subsidiary in other jurisdiction	**–**	(122)
Under-provision in prior years	**491,883**	–
Tax charge for the year	**7,398,445**	–

10. TAXATION (Continued)

At the end of reporting period, the Group has unused estimated tax losses of HK$10,588,061 (2009: HK$10,646,132) available for offset against future profits. No deferred tax asset has been recognised in respect of the estimated tax losses due to the unused estimated tax losses has not yet agreed by the Inland Revenue Department and there is uncertainty to the amount.

11. PROFIT FOR THE YEAR

	2010	2009
	HK$	*HK$*
Profit for the year has been arrived at after charging:		
Directors' remuneration (note 9(a))	**2,304,600**	3,122,750
Other staff costs	**8,015,047**	5,687,130
Retirement benefit scheme contributions	**283,998**	219,885
Total staff costs	**10,603,645**	9,029,765
Allowance for bad and doubtful debts	**111,439**	–
Amortisation of intangible assets	**936,000**	936,000
Auditors' remuneration	**200,000**	200,000
Depreciation	**554,595**	330,604
Written off of property, plant and equipment	**244,225**	–
Written off of deposits, prepayments and other receivables	**–**	29,724
And after crediting:		
Bank interest income	**118**	180
Written off of accruals and other payables	**476,452**	254,946
Written back of allowance for inventories	**–**	30,984

12. DIVIDENDS

No dividends have been paid or declared by the Company during the year (2009: HK$ Nil).

13. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the shareholders of the Company is based on the following data:

	2010	2009
	HK$	*HK$*
Earnings for the purpose of basic earnings per share:		
Profit for the year attributable to shareholders of the Company	**27,113,366**	11,413,618
Number of shares:		
Weighted average number of shares for the purpose of basic earnings per share	**501,188,494**	407,698,630
Effect of dilutive potential ordinary shares:		
Convertible bonds issued by the Company	**600,000,000**	-
	1,101,188,494	407,698,630

No diluted earnings per share had been presented for the year ended 30 June 2009, as there was no potential dilutive shares during the year.

Diluted earnings per share for the year ended 30 June 2010 assumed the conversion of all the outstanding convertible bonds of the Company, amounted to a maximum of 600,000,000 shares.

14. INTANGIBLE ASSETS

	2010	2009
	HK$	*HK$*
THE GROUP		
COST		
At beginning and end of the year	**18,720,000**	18,720,000
AMORTISATION		
At 1 July	**9,360,000**	8,424,000
Provided for the year	**936,000**	936,000
At 30 June	**10,296,000**	9,360,000
NET BOOK VALUE		
At 30 June	**8,424,000**	9,360,000

Intangible asset represents the trademarks "Blu Spa" use by the Company on its products and therapy. The Company sold its products using the trademark name "Blu Spa/富麗花 • 譜" throughout the PRC and Hong Kong markets.

The trademark was revaluated by an independent value, Greater China Valuation Company Limited as at 30 June 2010. The trademark was valued under the relief-from-royally approach. No impairment for the trademark is required to be made.

The Group adopted the cost model to account for the intangible asset. There is no change of amortisation policy of trademark. The trademark amortised over 20 years and the amortisation charge for each year is HK$936,000. The policy is consistent with the last year.

15. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery HK$	Leasehold improvement HK$	Furniture, fixture and equipment HK$	Motor vehicle HK$	Total HK$
THE GROUP					
COST					
At 1 July 2008	203,000	585,445	559,260	–	1,347,705
Additions	406,000	413,860	8,800	245,532	1,074,192
At 30 June 2009 and 1 July 2009	609,000	999,305	568,060	245,532	2,421,897
Additions	58,000	1,662,798	336,090	–	2,056,888
Written off	–	(560,259)	(27,485)	–	(587,744)
At 30 June 2010	**667,000**	**2,101,844**	**876,665**	**245,532**	**3,891,041**
ACCUMULATED DEPRECIATION					
At 1 July 2008	85,967	192,411	394,675	–	673,053
Provided for the year	82,750	161,484	49,540	36,830	330,604
At 30 June 2009 and 1 July 2009	168,717	353,895	444,215	36,830	1,003,657
Provided for the year	130,500	295,967	79,022	49,106	554,595
Eliminated on written off	–	(332,983)	(10,536)	–	(343,519)
At 30 June 2010	**299,217**	**316,879**	**512,701**	**85,936**	**1,214,733**
NET BOOK VALUES					
At 30 June 2010	**367,783**	**1,784,965**	**363,964**	**159,596**	**2,676,308**
At 30 June 2009	440,283	645,410	123,845	208,702	1,418,240

16. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2010	2009
	HK$	*HK$*
Unlisted shares, at cost	**482,700**	482,700
Impairment loss	**(480,000)**	(480,000)
	2,700	2,700
Amounts due from subsidiaries	**194,428,953**	94,097,057
	194,431,653	94,099,757
Less: Allowance on amounts due from subsidiaries	**(35,383,858)**	(34,574,329)
	159,047,795	59,525,428

Movements in allowance on amounts due from subsidiaries:

	2010	2009
	HK$	*HK$*
Balance at beginning of the year	**(34,574,329)**	(34,550,730)
Allowance on amounts due from subsidiaries during the year	**(809,529)**	(23,599)
	(35,383,858)	(34,574,329)

In the opinion of the Directors, the amounts due from subsidiaries are unsecured, non-interest bearing and are unlikely to be repaid within one year from the financial position date and are therefore shown in the financial position as non-current.

The Directors of the Company consider that the carrying amounts due from subsidiaries approximate their fair values.

Particulars of the Company's subsidiaries at 30 June 2010 are set out in note 29.

17. INVENTORIES

	THE GROUP	
	2010	2009
	HK$	*HK$*
Raw materials	**916,289**	676,640
Finished goods	**92,797**	52,002
Less: Provision for inventories	**(559,502)**	(559,502)
	449,584	169,140

Movements in provision for inventories:

	2010	2009
	HK$	*HK$*
Balance at beginning of the year	**(559,502)**	(590,486)
Written back on provision for inventories during the year	**–**	30,984
	(559,502)	(559,502)

18. TRADE RECEIVABLES

The Group allows credit period ranging from two months to six months to its customers. Details of the ageing analysis of trade receivables are as follows:

	2010	2009
	HK$	*HK$*
Aged:		
0-60 days	**30,231,869**	16,397,520
61-120 days	**17,697,560**	10,484,296
121-180 days	**7,000,000**	5,023,040
181-365 days	**21,690,858**	13,126,264
Over 365 days	**7,278,593**	47,963
	83,898,880	45,079,083
Provision for doubtful debts	**(159,402)**	(47,963)
	83,739,478	45,031,120

The Directors consider that the carrying amounts of trade receivables approximate their fair value.

The Group assesses the credit status and imposes credit limits for the customers in accordance with the Group's credit policy. The credit limits are closely monitored and subject to periodic reviews.

An amount of HK$83,587,229 (2009: HK$44,859,051) included in trade receivables were due from the sole PRC distributor, Beauty Concept. Such trade receivable represented approximately 44.5% (2009: 54.6%) of the total net asset value. Such trade receivable is unsecured, interest-free and with credit terms of 180 days. The amount primarily arose from the Group's sales of beauty equipment, sales of beauty products, royalty fee income and provision of training course.

As at 30 June 2010, trade receivables over 180 days amounted to HK$28,969,451 (2009: HK$13,174,227) were past due. The Group does not hold any collateral over these balances. In the opinion of the Directors, taking into account of the development of business activities of Beauty Concept, no impairment is considered necessary.

18. TRADE RECEIVABLES (Continued)

The movements in the provision for doubtful debts during the year are set out below:

	2010 HK$	2009 HK$
Balance at the beginning of the year	**47,963**	47,963
Impairment losses recognised on trade receivables	**111,439**	–
Balance at the end of the year	**159,402**	47,963

19. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

The Group	2010 HK$	2009 HK$
Deposits paid (note a)	**71,242,364**	474,524
Prepayments (note b)	**104,356,639**	26,421,556
Rental and utilities deposits	**5,055,811**	4,557,089
Other receivables	**459,470**	423,470
	181,114,284	31,876,639

The Company	2010 HK$	2009 HK$
Deposits paid	**46,000,000**	–
	46,000,000	–

19. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Note:

(a) (i) During the year, the Company had paid in aggregate HK$25,000,000 as earnest money in relation to the acquisition of the possible joint venture, as described in note 28(a). Should the parties fail to sign a formal sales & purchase agreement or should the acquisition fails to proceed by 31 December 2010, the earnest money will be refunded.

(ii) HK$45,000,000 paid for the Hua Du Project as described in note 28(b), to acquire 70% of the entire issued share capital of Vertical Signal Investments Limited (the "Target Company") at an consideration of HK$80,000,000.

(b) Included in the prepayments are an amount of HK$96,614,662 for the purchase of inventories, most of the amount prepaid to 6 major suppliers, which represented approximately 92.6% of the total prepayment, and HK$6,000,000 for marketing & promotion fee.

20. AMOUNTS DUE TO A DIRECTOR/DIRECTORS

The Group and the Company

As at 30 June 2010, the amounts due to a Director/Directors including an amount of HK$114,994 (2009: HK$7,674) and HK$1,000 (2009: HK$1,000) of the Group and the Company respectively, which are non-interest bearing and is unsecured and repayable on demand.

21. CONVERTIBLE BONDS

On 29 April 2010, the company issued zero coupon convertible bonds due on 29 April 2013 in the aggregate principal amount of HK$114,000,000 with a conversion price of HK$0.19 per ordinary share of HK$0.1 (Subject to adjustment) of the Company.

The fair value of the liability component and equity conversion component were determined upon the issuance of the convertible bonds.

The fair value of the liability component, included in non-current liabilities, was calculated based on the estimated discounted cash flow over the estimated contractual terms of the convertible bonds and discounted using a market interest rate for an equivalent non-convertible bond. The discounted rate of the liabilities component of the convertible bonds was approximately 17.75%. The residual amount, representing the value of equity conversion component was included in the shareholders' equity under "convertible bonds equity reserve'.

21. CONVERTIBLE BONDS (Continued)

The convertible bonds recognised in the statement of financial position were calculated as follows:

	2010
	HK$
Proceeds of issue	**110,122,343**
Equity component	**(40,565,701)**
Liability component at date of issue	**69,556,642**
Interest charged	**2,131,296**
Liability component at 30 June 2010	**71,687,938**

Interest on the convertible bonds is calculated on the effective yield basis by applying the effective interest rate for an equivalent non-convertible bond to the liability component of the convertible bonds.

The liability component is measured at amortised cost. The interest expense for the year of HK$2,131,296 is calculated by applying an effective interest rate of 17.75% to the liability component. The convertible bonds do not bear any interest. The difference between the carrying amount of the liability component at the date of issue of HK$69,556,642 and the amount reported in the consolidated statement of financial position at 30 June 2010 of HK$71,687,938 represents the effective interest less interest paid to that date.

Pursuant to the terms and conditions of the convertible bonds, so long as any bond remains outstanding, the Company will not create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest upon the whole or any part of its undertaking, assets or revenues, present or future, to secure, guarantee or indemnify in respect of any present or future indebtedness of the Company other than loans from banks or licensed or registered financial institutions unless, at the same time or prior thereto, the Company's obligation under the bonds (a) are secured equally and ratably therewith or benefit from a guarantee or indemnity in substantially identical terms thereto, as the case may be or (b) have the benefit of such other security, guarantee, indemnity or other arrangement as the bondholders shall approve by an ordinary resolution.

22. SHARE CAPITAL

	Number of shares of HK$0.1 each	Amount HK$
Authorised:		
At 1 July 2008, 30 June 2009 and 1 July 2009	1,000,000,000	100,000,000
Increase in authorised share capital shares (note (a))	4,000,000,000	400,000,000
At 30 June 2010	**5,000,000,000**	**500,000,000**
Issued and fully paid:		
At 1 July 2008	393,680,000	39,368,000
Shares issued pursuant to the subscription agreements dated 27 April 2009	78,720,000	7,872,000
At 30 June 2009 and 1 July 2009	472,400,000	47,240,000
Issue of new shares pursuant to a placing agreement dated 19 August 2009 (note (b))	49,800,000	4,980,000
At 30 June 2010	**522,200,000**	**52,220,000**

Notes:

(a) Pursuant to the ordinary resolution passed in the Extraordinary General Meeting of the Company held on 14 April 2010, the authorised share capital was increased from HK$100 million to HK$500 million by the creation of an additional 4,000,000,000 ordinary shares of HK$0.1 each.

(b) On 2 December 2009 the Company issued 49,800,000 new shares at HK$0.80 each by placing.

23. RESERVES

	Share premium	Convertible bonds equity reserve	Accumulated losses	Total
	HK$	*HK$*	*HK$*	*HK$*
THE COMPANY				
At 1 July 2008	49,785,364	–	(41,698,292)	8,087,072
Shares issued pursuant to the subscription agreements dated 27 April 2009	7,872,000	–	–	7,872,000
Transactions cost attributable to issue of new shares	(597,580)	–	–	(597,580)
Loss for the year	–	–	(2,962,719)	(2,962,719)
At 30 June 2009 and 1 July 2009	57,059,784	–	(44,661,011)	12,398,773
Shares issued pursuant to the placing agreement dated 19 August 2009	34,860,000	–	–	34,860,000
Transactions cost attributable to issue of new shares	(1,785,446)	–	–	(1,785,446)
Recognition of equity component of convertible bonds	–	40,565,701	–	40,565,701
Loss for the year	–	–	(5,909,832)	(5,909,832)
At 30 June 2010	**90,134,338**	**40,565,701**	**(50,570,843)**	**80,129,196**

The company's reserves available for distribution to shareholders as at 30 June 2010 was HK$80,129,196 (2009: HK$12,398,773).

24. AMOUNTS DUE TO A RELATED COMPANY/A RELATED PARTY

At 30 June 2010, the amount due to a related company, the controlling shareholder of which is the chief executive officer of the Company, amounted to HK$4,962,754 (2009: HK$2,404,457) is unsecured, non-interest bearing and repayable upon demand.

At 30 June 2010, the amount due to a related party who is the chief executive officer of the Company, amounted to HK$122,770 (2009: HK$47,837) is unsecured, non-interest bearing and repayable upon demand.

The Directors consider that the carrying amounts approximate their fair value.

25. RETIREMENT BENEFIT SCHEME

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all employees. The MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group in respect of the MPF Scheme is to make the required contributions under the scheme.

The retirement benefits cost charged to the consolidated income statement represents contributions payable to the scheme by the Group at rates specified in the rules of the scheme.

26. OPERATING LEASE COMMITMENTS

	2010	2009
	HK$	*HK$*
Accrued lease payments	**600,721**	609,414
Within one year	**5,217,864**	3,258,399
In the second to fifth year inclusive	**3,903,378**	1,558,629
	9,721,963	5,426,442

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for an average terms of 2 to 5 years.

27. RELATED PARTY TRANSACTIONS

During the year, the Group had the transactions with the following parties:

Name of party	NOTES	Nature of transactions	2010 HK$	2009 HK$
Balance at 30 June 2010:				
Garrick	(ii)	Purchases of products and expenses paid on behalf	**(4,962,754)**	(2,404,457)
Garrick	(ii)	Deposit paid for purchase of inventories	**3,000,000**	3,000,000
Ms. Keung Wai Fun, Samantha	(ii)	Expenses claimed to be reimbursed	**(122,770)**	(47,837)
Ms. Chan Choi Har, Ivy	(i)	Expenses claimed to be reimbursed	**(114,994)**	(6,230)
Cheung Tsun Hin, Samson	(iii)	Expenses claimed to be reimbursed	**–**	(1,444)
Transactions arose in the ordinary course of the Group's business:				
Cheung Tsun Hin, Samson		Salary	**360,000**	360,000
		Director fee	**120,000**	110,000
			480,000	470,000
Ms. Chan Choi Har, Ivy		Salary	**1,200,000**	1,200,000
		Director fee	**120,000**	110,000
			1,320,000	1,310,000
Ms. Keung Wai Fun, Samantha		Salary	**1,200,000**	1,200,000
Garrick	(ii)	Purchases of products	**6,558,296**	8,749,716
Garrick	(ii)	Purchases of equipments	**–**	148,048

27. RELATED PARTY TRANSACTIONS (Continued)

Compensation for key management personnel

The remuneration of Directors and other members of key management personnel during the year are as follows:

	The Group	
	2010	2009
	HK$	*HK$*
Short-term employee benefits	**2,588,748**	3,324,500

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.

Notes:

i. The amount due to a Director is unsecured, interest free and has no fixed repayment terms.

ii. Ms. Keung Wai Fun, Samantha, who is the chief executive officer of China AU Group Holdings Limited, is the controlling shareholder and director of Garrick. The Group purchased products at arm's length from Garrick during the year.

As at 30 June 2010, an amount of HK$3,000,000 was deposit paid to Garrick to purchase bottles on behalf of the Group.

iii. Mr. Cheung Tsun Hin, Samson is the Director of China AU Group Holdings Limited.

28. EVENTS AFTER REPORTING PERIOD

(a) On 9 December 2009, a wholly owned subsidiary of the Company, Castletop Assets Limited (the "Castletop") entered into the Letter of Intent (the "LOI") with Zhongcheng Satellite Technology Center Co., Ltd. (中成衛星技術中心有限公司) ("ZSTC") in relation to a possible joint venture. The principal business of the joint venture company will be engaged in the business of research, development and operation of an electronic medical card system using the radio frequency identification technology in the PRC (the "e-Medical Card Project").

According to the LOI, it is proposed that ZSTC will first form a joint venture company in the PRC. It is intended that the shareholding of the joint venture company will be held as to 20% by ZSTC and as to 80% by an offshore company. ZSTC would procure the shareholder of the said offshore company (the "Vendor") to sell its 80% equity interest in the joint venture company to Castletop.

28. EVENTS AFTER REPORTING PERIOD (Continued)

(a) (Continued)

Pursuant to the LOI, subsequent supplementary letter of intent and a Head of Agreement, Castletop has paid an aggregate amount of HK$25,000,000 as refundable earnest money (the "Earnest Money"). If the parties fail to sign the formal sales & purchase agreement or if the possible acquisition fails to proceed by 31 December 2010 for whatsoever reason, the earnest money will be refunded to Castletop.

The acquisition is still under negotiation, no binding agreement in relation to the possible joint venture has been entered into at the end of reporting period.

(b) On 30 April 2010, a wholly-owned subsidiary of the Company, Blu Spa (Hong Kong) Limited (the "BSHK") and Mr. Shum Yeung (the "Vendor"), entered into the sales & purchase agreement ("S&P Agreement"), pursuant to which BSHK has agreed to acquire 70% of the entire issued share capital of Vertical Signal Investments Limited (the "Target Company") and the loan of approximately HK$55,679,000 at an consideration of HK$80,000,000 (the "Consideration") subject to fulfillment of certain conditions. The Vendor has agreed to grant an option to BSHK to purchase the remaining 30% of the entire issued share capital in the Target Company at an consideration of HK$30,000,000 during the option period.

At the date of the S&P Agreement, an aggregate amount of HK$45,000,000 had been paid to the Vendor as deposit. As to the balance of HK$35,000,000 shall be satisfied by cash or by issue of zero coupon convertible notes due 2015 of the Company (or a combination of both) at the discretion of the Purchaser. The conversion price of the convertible notes is set at HK$0.548 per share, subject to adjustment.

Completion of the acquisition is subject to the satisfaction of the conditions in the S&P Agreement on or before 30 November 2010 (or such other date as the Company and the vendor may agree). In the event that the S&P Agreement was terminated by reasons as specified in the S&P Agreement, the Vendor shall forthwith refund all sums received for payment of the Consideration, without interest, to BSHK.

The principal assets of the Target Company is a piece of land situated in Guangzhou, Hua Du with buildings thereon of the total built area of about 8,000 square metres (the "Buildings"). The Group will establish a beauty professional training institute in the Buildings.

29. SUBSIDIARIES

Particulars of the Company's subsidiaries at 30 June 2010 are as follows:

Name of subsidiaries	Place of incorporation/ operation	Issued and paid up share capital	Proportion of nominal value of issued capital held by the Company Directly %	Indirectly %	Principal activities
Beachgold Assets Limited	British Virgin Islands/ Hong Kong	Shares US$2	–	100	Holding of patent and trademarks/tradenames
Blu Spa Group Limited	British Virgin Islands/ Hong Kong	Shares US$2,700	100	–	Investment holding
Blu Spa (Hong Kong) Limited	Hong Kong	Ordinary shares HK$2	–	100	Market development, product distribution and customer support services
Blu Spa International Limited	British Virgin Islands/ Hong Kong	Share US$1	–	100	Advertising, marketing and granting of distribution rights
Blu Spa Management Services Limited	British Virgin Islands/ Hong Kong	Share US$1	–	100	Provision of retail concept store, spa operation and related management services
Casteletop Assets limited	British Virgin Islands	Shares US$2	–	100	Inactive
Clapton Holdings Limited	The Republic of Cyprus/ Canada	Shares C £1,000	–	100	Advertising, marketing and granting of distribution rights
Max Gold Pacific Limited	British Virgin Islands/ Hong Kong	Share US$1	–	100	Inactive

29. SUBSIDIARIES (Continued)

Name of subsidiaries	Place of incorporation/ operation	Issued and paid up share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly %	Indirectly %	
Profit Full Global Limited	British Virgin Islands/ Hong Kong	Shares US$2	–	100	Inactive
Kingsbury Asia Limited	British Virgin Islands/ Hong Kong	Shares US$2	–	100	Administration and operation
Star Beauty Canada Inc.	The Republic of Cyprus/ Canada	Shares CAD1	–	100	Products purchasing
Star Beauty Group Holdings Limited	Hong Kong	Ordinary shares HK$2	–	100	Inactive
Winner Century Limited	Hong Kong	Ordinary shares HK$1	–	100	Inactive
Zhuhai Fulihua Cosmetics Co. Ltd.	PRC	RMB 500,000	–	100 through trustees	Advertising, marketing and granting of distribution right
北京富麗花譜美容有限公司	PRC	RMB 100,000	–	100 through trustees	Inactive

30. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to confirm with current year's presentation.

FINANCIAL SUMMARY

	FOR THE YEAR ENDED 30 JUNE				
	2006	2007	2008	2009	**2010**
	HK$	*HK$*	*HK$*	*HK$*	***HK$***
Results					
Turnover	133,465	4,558,311	16,173,772	49,294,137	**99,662,281**
Profit (loss) from ordinary activities attributable to shareholders	(4,927,964)	(3,734,818)	1,282,244	11,413,618	**27,113,366**

Assets and liabilities

	AS AT 30 JUNE				
	2006	2007	2008	2009	**2010**
	HK$	*HK$*	*HK$*	*HK$*	***HK$***
Total assets	13,556,412	13,788,272	69,896,959	88,971,686	**278,155,341**
Total liabilities	(18,857,407)	(22,832,701)	(14,310,908)	(6,844,455)	**(90,290,702)**
Balance (deficiency) of shareholders' funds	(5,300,995)	(9,044,429)	55,586,051	82,127,231	**187,864,639**