



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

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8176)

FIRST QUARTERLY REPORT
FOR THE THREE MONTHS ENDED
30 SEPTEMBER 2010

* *For identification purpose only*

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

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

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

SUMMARY

- The Group’s turnover for the three months ended 30 September 2010 was approximately HK\$27,669,000, representing an increase of approximately 99.7% over the corresponding period of 2009.
- Profit for the three months ended 30 September 2010 was approximately HK\$391,000, representing a decrease of approximately 79.2% over the corresponding period of 2009. Excluding the imputed interest on the convertible bonds, profit for the period under review was approximately HK\$3,273,000, representing an increase of approximately 74.3% over the corresponding period of 2009.
- Basic earnings per share for the three months ended 30 September 2010 was HK0.07 cents (2009: 0.40 cents), representing a decrease of 82.5% over the corresponding period of 2009. Diluted earnings per share for the three months ended 30 September 2010 was HK0.04 cents (2009: N/A).
- The board did not recommend the payment of an interim dividend for the three months ended 30 September 2010.

UNAUDITED QUARTERLY RESULTS

The board of directors (the “Board”) of China AU Group Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated first quarterly results of the Company and its subsidiaries (the “Group”) for the three months ended 30 September 2010 together with the comparative figures for the corresponding period in 2009. The condensed consolidated first quarterly results have not been audited, but have been reviewed by the Company’s audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

		(Unaudited)	
		For the three months ended	
		30 September	
		2010	2009
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	3	27,669	13,856
Cost of sales		<u>(18,860)</u>	<u>(6,630)</u>
Gross profit		8,809	7,226
Other revenue		–	2
Selling and distribution costs		(1,113)	(2,941)
Administrative expenses		(3,516)	(2,409)
Finance costs	4	<u>(2,882)</u>	–
Profit before taxation		1,298	1,878
Taxation	5	<u>(907)</u>	–
Profit for the period	6	<u><u>391</u></u>	<u><u>1,878</u></u>
		<i>HK cents</i>	<i>HK cents</i>
Earnings per share	8		
Basic		<u><u>0.07</u></u>	<u><u>0.40</u></u>
Diluted		<u><u>0.04</u></u>	<u><u>N/A</u></u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	(Unaudited)	
	For the three months ended	
	30 September	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period	391	1,878
Other comprehensive expense		
Exchange differences arising on translation of foreign operations	<u>(1)</u>	<u>–</u>
Other comprehensive expense for the period (net of tax)	<u>(1)</u>	<u>–</u>
Total comprehensive income for the period	<u>390</u>	<u>1,878</u>

1. GENERAL

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated results for the three months ended 30 September 2010 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.

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

In the current review period, the Group has applied for the first time the following new or revised standards, amendments and interpretations issued by the HKICPA, which are effective for the Group’s financial year beginning on 1 July 2010:

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
HKAS 32 (Amendments)	Classification of Rights Issues ²
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*

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

3. TURNOVER AND SEGMENTAL INFORMATION

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

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

	PRC <i>HK\$'000</i>	Hong Kong <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<i>For the three months ended 30 September 2010</i>			
<i>(Unaudited)</i>			
Turnover			
External sales			
– Sales of beauty equipments	24,320	–	24,320
– Sales of beauty products	–	196	196
– Royalty fee income	2,432	–	2,432
– Therapy services	–	221	221
– Provision of training courses	500	–	500
	<u>27,252</u>	<u>417</u>	<u>27,669</u>
Total revenue			
	<u>27,252</u>	<u>417</u>	<u>27,669</u>
Result			
Segment result	<u>9,585</u>	<u>(776)</u>	8,809
Unallocated corporate incomes			–
Unallocated corporate expenses			(4,629)
Interest income			–
Finance costs			(2,882)
Taxation			<u>(907)</u>
Profit for the period			<u>391</u>

	PRC HK\$'000	Hong Kong HK\$'000	Consolidated HK\$'000
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For the three months ended 30 September 2009
(Unaudited)

Turnover

External sales

– Sales of beauty equipments	10,000	–	10,000
– Sales of beauty products	2,001	4	2,005
– Royalty fee income	1,200	–	1,200
– Therapy services	–	75	75
– Provision of training courses	500	76	576
	<u>500</u>	<u>76</u>	<u>576</u>

Total revenue	<u>13,701</u>	<u>155</u>	<u>13,856</u>
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Result

Segment result	<u>9,058</u>	<u>(1,832)</u>	7,226
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Unallocated corporate incomes			2
Unallocated corporate expenses			(5,350)
Finance costs			–
Taxation			–

Profit for the period			<u>1,878</u>
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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.

Segment profit/(loss) represents profit earned or loss incurred by each segment without allocation of corporate administration costs including Directors' salaries, 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.

4. FINANCE COSTS

(Unaudited)
Three months ended
30 September
2010 2009
HK\$'000 HK\$'000

Imputed interest on convertible bonds	<u>2,882</u>	<u>–</u>
	<u>2,882</u>	<u>–</u>

5. TAXATION

	(Unaudited)	
	Three months ended	
	30 September	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profits tax		
– Hong Kong – current period	907	–
– PRC – current period	–	–
	<u>907</u>	–
Deferred tax – current period	–	–
	<u>907</u>	–

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profits for the three months ended 30 September 2010. No Hong Kong profits tax is payable on the estimated assessable profits for the three months ended 30 September 2009 since the assessable profits is wholly absorbed by tax losses brought forward.

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

6. PROFIT FOR THE PERIOD

	(Unaudited)	
	Three months ended	
	30 September	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period has been arrived at after charging:		
Directors' remuneration	570	570
Other staff costs	2,293	1,710
Retirement benefit scheme contributions	84	72
	<u>2,947</u>	<u>2,352</u>
Total staff costs		
	<u>2,947</u>	2,352
Amortisation of intangible assets	234	234
Depreciation	178	105

7. DIVIDENDS

The Board did not recommend the payment of an interim dividend for the three months ended 30 September 2010 (2009: Nil).

8. EARNINGS PER SHARE

The calculation of the basic earnings per share for the three months ended 30 September 2010 is based on the profit for the period of approximately HK\$391,000 (2009: approximately HK\$1,878,000) and on the weighted average number of 583,069,565 ordinary shares (2009: 472,400,000) in issue during the period.

Diluted earnings per share for the three months ended 30 September 2010 assumed the conversion of all outstanding convertible bonds of the Company, amounted to a maximum of 500,000,000 shares. No diluted earnings per share for the three months ended 30 September 2009 was presented as there was no potential dilutive ordinary share in issue.

9. RESERVES

	(Unaudited)					
	Share Premium <i>HK\$'000</i>	Merger Difference <i>HK\$'000</i>	Convertible Bonds Equity Reserve <i>HK\$'000</i>	Translation Reserve <i>HK\$'000</i>	Accumulated Losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 July 2010	90,134	22,735	40,566	(21)	(17,769)	135,645
Profit for the period	-	-	-	-	391	391
Other comprehensive income for the period:						
Exchange differences arising from translation of operations outside Hong Kong	-	-	-	(1)	-	(1)
Total comprehensive income for the period	-	-	-	(1)	391	390
Conversion of convertible bonds	9,156	-	(6,999)	-	-	2,157
At 30 September 2010	<u>99,290</u>	<u>22,735</u>	<u>33,567</u>	<u>(22)</u>	<u>(17,378)</u>	<u>138,192</u>
At 1 July 2009	57,060	22,735	-	(26)	(44,882)	34,887
Profit for the period	-	-	-	-	1,878	1,878
Other comprehensive income for the period:						
Exchange differences arising from translation of operations outside Hong Kong	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	1,878	1,878
At 30 September 2009	<u>57,060</u>	<u>22,735</u>	<u>-</u>	<u>(26)</u>	<u>(43,004)</u>	<u>36,765</u>

10. RELATED PARTY DISCLOSURES

a. Related party transactions

Name of party	Nature of transactions	(Unaudited)	
		Three months ended	
		30 September	2009
		2010	2009
		HK\$'000	HK\$'000
Garrick International Limited (<i>Note 1</i>)	Purchase of products (<i>Note 2</i>)	<u>6</u>	<u>1,334</u>

Notes:

- Ms. Keung Wai Fun (“Ms. Samantha Keung”), chief executive officer of the Company and controlling shareholder of Million Fortune Group Limited (the Company’s ultimate holding company), and Mr. Cheung Tsun Hin, Samson, Chairman and executive Director of the Company, are shareholders and directors of Garrick International Limited. Garrick International Limited is owned as to 90% by Ms. Samantha Keung and as to 10% by Mr. Cheung Tsun Hin, Samson. Mr. Cheung Tsun Hin, Samson is son of Ms. Samantha Keung.
- The Group purchased products at arm’s length from Garrick International Limited during the period.

b. Compensation for key management personnel

The remuneration of Directors and other members of key management personnel during the period were as follows:–

	(Unaudited)	
	Three months ended	
	30 September	2009
	2010	2009
	HK\$'000	HK\$'000
Short-term employee benefits	<u>879</u>	<u>870</u>

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

MANAGEMENT DISCUSSION AND ANALYSIS

Results of operation

For the three months ended 30 September 2010, the Group recorded a turnover of approximately HK\$27,669,000 (2009: approximately HK\$13,856,000) which represented an increase of approximately 99.7% over the corresponding period last year. This increase in turnover was mainly attributable 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 gross profit amounted to approximately HK\$8,809,000 (2009: approximately HK\$7,226,000) for the three months ended 30 September 2010, representing an increase of 21.9% over the corresponding period last year which was mainly attributable to increased distribution sales for the period.

Selling and distribution costs for the three months ended 30 September 2010 amounted to approximately HK\$1,113,000 (2009: approximately HK\$2,941,000), representing a decrease of 62.2% over the corresponding period last year. The decrease in selling and distribution costs was mainly due to less marketing and promotional expenditure for the PRC market.

Administrative expenses for the three months ended 30 September 2010 amounted to approximately HK\$3,516,000 (2009: approximately HK\$2,409,000), representing an increase of approximately 46.0% over the corresponding period last year. It was mainly due to the increase in legal and professional expenses incurred for the Company's possible acquisitions.

Finance costs for the three months ended 30 September 2010 amounted to approximately HK\$2,882,000 (2009: Nil). The finance costs relates to the imputed interest on the convertible bonds issued in April 2010.

The Group's profit attributable to shareholders of the Company for the three months ended 30 September 2010 was approximately HK\$391,000 (2009: approximately HK\$1,878,000), representing a decrease of 79.2% over the corresponding period last year. Excluding the imputed interest on the convertible bonds, profit attributable to shareholders of the Company for the period under review was approximately HK\$3,273,000, representing an increase of approximately 74.3% over the corresponding period of 2009.

Business Review

During the period under review, the turnover of the Group amounted to approximately HK\$27,669,000, representing an increase of 99.7% from HK\$13,856,000 the turnover during the same period last year. 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. However, the profit of the Group for the period under review is noted to have been reduced by the imputed interest attributed to the convertible bonds issued by the Company in late April this year.

In order to maintain its competitive edge, the Group introduced an array of new innovative hair rejuvenating products in its spa centers, and cosmetic sales and spa counters. The Group believes that this new line of hair rejuvenating products will help widen its product offering to customers and strengthen its sales and profitability.

Prospect

Following 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 planning to set up in November a cosmetic sales counter in the World Trade Centre, one of the highest pedestrian traffic locations in Causeway Bay. The Group is also actively seeking additional spa facility management opportunity in high-end residential estates as well as hotels and the on-going negotiations with leading property developers in Hong Kong had led to the management by the Group of a new spa centre in October.

With the successful launching of hair rejuvenation center in Hong Kong, the Group is in the process of implementing its business plan for the launch of hair rejuvenation center franchise business. The new franchise will cater for young entrepreneurs interested in investing in the operation of unique innovative hair care franchise in China. 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.

While devoting its attention to expanding distribution network, the Group will participate in the Cosmoprof Asia 2010, leading international beauty trade show event, to be held in November in Hong Kong. The Group is confident that the continuing participation in such major trade events will help heighten market awareness of Blu Spa brand products and services.

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, 25 August 2010, and 29 October 2010. Unless otherwise stated, capitalized terms used in this report shall have the same meanings as defined in the above announcements.

Pursuant to the Company's announcement of 29 October 2010, BSHK and the Vendor agreed to extend the long stop date of the S&P Agreement to 31 March 2011 (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 15.8% of the total asset value of the Group as at 30 September 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 report shall have the same meanings as defined in the above announcements.

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 8.8% of the total asset value of the Group as at 30 September 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.

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the three months ended 30 September 2010 (2009: Nil).

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

As at 30 September 2010, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”), which were required (i) to be notified to the Company and the Exchange pursuant to Divisions 7 and 8 of Part XV of SFO (including interests or short positions which they have taken or deemed to have taken under such provisions of SFO); or (ii) to be entered in the register referred to therein pursuant to Section 352 of SFO; or (iii) to be notified to the Company and the Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

Long position in shares

Name	Nature of interests	Number of shares	Approximate percentage of shareholding
<i>Executive Director</i>			
Ms. Ivy Chan	Beneficial owner	2,000,000	0.32%
	Corporate interest	11,065,787 (Note 1)	1.78%
Mr. Ji He Qun	Beneficial owner	60,800,000	9.77%
	Interest of spouse	9,480,000	1.52%
<i>Chief executive officer</i>			
Ms. Samantha Keung	Corporate interest	175,682,200 (Note 2)	28.24%

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. These shares are held by Queensbury Global Limited. Queensbury Global Limited is owned as to 88.38% by Million Fortune Group Limited. Million Fortune Group Limited is owned as to 87% by Ms. Samantha Keung.

Save as disclosed above, as at 30 September 2010, none of the Directors or chief executives of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have taken under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO to be entered in the register referred to therein or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Exchange.

SHARE OPTION SCHEMES

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

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

The total number of shares in respect of which options may be granted under the Share Option Scheme and any other scheme is not permitted to exceed 30% of the issued share capital of the Company from time to time. The total number of shares which may be allotted and issued upon exercise of all options to be granted under the 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 September 2010, no options had been granted under the Share Option Scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2010, so far as is known to the Directors and chief executives of the Company, the following person (other than the Directors and chief executives of the Company as disclosed above) had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO:

Long position in shares

Shareholder	Nature of interests	Number of shares	Approximate percentage of shareholding
Queensbury Global Limited	Beneficial owner	175,682,200 (Note)	28.24%
Million Fortune Group Limited	Interest of controlled corporation	175,682,200 (Note)	28.24%
Ms. Samantha Keung	Interest of controlled corporation	175,682,200 (Note)	28.24%
Mr. Ji He Qun	Beneficial owner	60,800,000	9.77%
	Interest of spouse	9,480,000	1.52%

Note: As at 30 September 2010, Queensbury Global Limited owned 175,682,200 ordinary shares of the Company.

As Million Fortune Group Limited holds 88.38% interest in the registered capital of Queensbury Global Limited and Ms. Samantha Keung holds 87.0% interest in the registered capital of Million Fortune Group Limited, Ms. Samantha Keung is deemed to be interested in all of the 175,682,200 ordinary shares of the Company held by Queensbury Global Limited. Ms. Samantha Keung's indirect interest in these 175,682,200 ordinary shares of the Company is also disclosed in the paragraph headed "Disclosure of the interests and short positions of directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporations". These ordinary shares represent the same interest and therefore duplicate amongst Queensbury Global Limited, 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 person (other than the Directors and chief executives of the Company as disclosed above) who, as at 30 September 2010, had any interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for the three months ended 30 September 2010.

COMPETING INTERESTS

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

CORPORATE GOVERNANCE

For the three months ended 30 September 2010, the Group had been in compliance with most of the provisions of the Code on Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules, save as the deviations discussed below. The Company adopted the code provisions set out in the Code on Corporate Governance Practices as its own code of corporate governance practices.

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

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

SECURITIES TRANSACTIONS BY DIRECTORS

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

BOARD OF DIRECTORS

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

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

AUDIT COMMITTEE

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

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

The Group's unaudited quarterly results for the three months ended 30 September 2010 have been reviewed by the audit committee.

REMUNERATION COMMITTEE

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

PUBLIC FLOAT

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

BOARD PRACTICES AND PROCEDURES

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

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

Hong Kong, 5 November 2010

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