



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)

INTERIM REPORT
FOR THE SIX MONTHS ENDED
31 DECEMBER 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 GEM of the Exchange (“GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading or deceptive; and (ii) there are no other matters the omission of which would make any statement herein or this report misleading.

SUMMARY

- The Group’s turnover for the six months ended 31 December 2010 was approximately HK\$40,230,000, representing a decrease of approximately 4.6% over the corresponding period of 2009.
- Loss for the six months ended 31 December 2010 was approximately HK\$1,881,000 (2009: profit of approximately HK\$13,224,000). Excluding the imputed interest on the convertible bonds, profit before finance costs for the period under review was approximately HK\$4,460,000, representing a decrease of approximately 72.5% over the corresponding period of 2009.
- Basic and diluted loss per share for the six months ended 31 December 2010 were HK0.29 cents (2009: basic earnings per share of HK2.75 cents) and HK0.19 cents (2009: N/A) respectively.
- The board did not recommend the payment of an interim dividend for the six months ended 31 December 2010.

UNAUDITED INTERIM RESULTS

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

CONDENSED CONSOLIDATED INCOME STATEMENT

		(Unaudited) For the six months ended 31 December		(Unaudited) For the three months ended 31 December	
		2010	2009	2010	2009
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	3	40,230	42,167	12,561	28,311
Cost of sales		<u>(25,538)</u>	<u>(13,311)</u>	<u>(6,678)</u>	<u>(6,681)</u>
Gross profit		14,692	28,856	5,883	21,630
Other revenue		–	21	–	19
Selling and distribution costs		(3,341)	(7,288)	(2,228)	(4,347)
Administrative expenses		<u>(6,891)</u>	<u>(5,365)</u>	<u>(3,375)</u>	<u>(2,956)</u>
Profit before finance costs		4,460	16,224	280	14,346
Finance costs					
– Imputed Interest on convertible bonds	4	<u>(5,248)</u>	–	<u>(2,366)</u>	–
(Loss)/Profit before taxation		(788)	16,224	(2,086)	14,346
Taxation	5	<u>(1,093)</u>	<u>(3,000)</u>	<u>(186)</u>	<u>(3,000)</u>
(Loss)/Profit for the period	6	<u><u>(1,881)</u></u>	<u><u>13,224</u></u>	<u><u>(2,272)</u></u>	<u><u>11,346</u></u>
		<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
(Loss)/Earnings per share	8				
Basic		<u><u>(0.29)</u></u>	<u><u>2.75</u></u>	<u><u>(0.33)</u></u>	<u><u>2.32</u></u>
Diluted		<u><u>(0.19)</u></u>	<u><u>N/A</u></u>	<u><u>(0.22)</u></u>	<u><u>N/A</u></u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	(Unaudited) For the six months ended 31 December 2010		(Unaudited) For the three months ended 31 December 2010	
	<i>HK\$'000</i>	2009 <i>HK\$'000</i>	<i>HK\$'000</i>	2009 <i>HK\$'000</i>
(Loss)/Profit for the period	(1,881)	13,224	(2,272)	11,346
Other comprehensive expense				
Exchange differences arising from translation of foreign operations	(2)	(31)	(1)	(31)
Other comprehensive expense for the period (net of tax)	(2)	(31)	(1)	(31)
Total comprehensive (expense)/income for the period	(1,883)	13,193	(2,273)	11,315

CONDENSED CONSOLIDATED FINANCIAL POSITION

		(Unaudited) As at 31 December 2010 <i>HK\$'000</i>	(Audited) As at 30 June 2010 <i>HK\$'000</i>
	<i>Notes</i>		
Non-current assets			
Intangible assets		7,956	8,424
Property, plant and equipment		<u>2,320</u>	<u>2,676</u>
		10,276	11,100
Current assets			
Inventories		487	450
Trade receivables	9	115,447	83,740
Deposits, prepayment and other receivables		172,989	181,114
Bank balances and cash		<u>13,632</u>	<u>1,752</u>
		302,555	267,056
Current liabilities			
Deposits from customers		4,378	2,915
Accruals and other payables		4,480	3,084
Amounts due to a director		116	115
Amounts due to a related company	10	4,984	4,963
Amounts due to a related party		123	123
Provision for taxation		<u>6,996</u>	<u>7,403</u>
		21,077	18,603
Net current assets		<u>281,478</u>	<u>248,453</u>
Total assets less current liabilities		291,754	259,553
Non-current liabilities			
Convertible bonds		<u>42,950</u>	<u>71,688</u>
Total net assets		<u>248,804</u>	<u>187,865</u>
Capital and reserves			
Share capital	11	87,220	52,220
Reserves		<u>161,584</u>	<u>135,645</u>
		<u>248,804</u>	<u>187,865</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	(Unaudited)						
	Convertible			Translation		Accumulated	Total
	Share capital	Share premium	Merger difference	bonds equity	reserve	losses	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 July 2010	52,220	90,134	22,735	40,566	(21)	(17,769)	187,865
Loss for the period	-	-	-	-	-	(1,881)	(1,881)
Other comprehensive expense for the period:							
Exchange differences arising from translation of operations outside Hong Kong	-	-	-	-	(2)	-	(2)
Total comprehensive expense for the period	-	-	-	-	(2)	(1,881)	(1,883)
Issue of new shares pursuant to subscription agreements dated 29 November 2010	8,000	22,000	-	-	-	-	30,000
Transaction costs attributable to issue of new shares	-	(1,163)	-	-	-	-	(1,163)
Convertible bonds exercised	27,000	25,882	-	(18,897)	-	-	33,985
At 31 December 2010	87,220	136,853	22,735	21,669	(23)	(19,650)	248,804
At 1 July 2009	47,240	57,060	22,735	-	(26)	(44,882)	82,127
Profit for the period	-	-	-	-	-	13,224	13,224
Other comprehensive expense for the period:							
Exchange differences arising from translation of operations outside Hong Kong	-	-	-	-	(31)	-	(31)
Total comprehensive (expense)/ income for the period	-	-	-	-	(31)	13,224	13,193
Issue of new shares pursuant to a placing agreement dated 19 August 2009	4,980	34,860	-	-	-	-	39,840
Transaction costs attributable to issue of new shares	-	(1,786)	-	-	-	-	(1,786)
At 31 December 2009	52,220	90,134	22,735	-	(57)	(31,658)	133,374

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	(Unaudited) For the six months ended 31 December 2010 <i>HK\$'000</i>	(Unaudited) For the six months ended 31 December 2009 <i>HK\$'000</i>
Net cash (used in) operating activities	(16,955)	(38,384)
Net cash (used in) investing activities	–	(296)
Net cash generated from financing activities	<u>28,837</u>	<u>38,054</u>
Increase/(Decrease) in cash and cash equivalents	11,882	(626)
Effect of foreign exchange rate changes	(2)	(31)
Cash and cash equivalents at beginning of the period	<u>1,752</u>	<u>1,117</u>
Cash and cash equivalents at end of the period	<u><u>13,632</u></u>	<u><u>460</u></u>
Analysis of the balance of cash and cash equivalents		
Bank balances and cash	<u><u>13,632</u></u>	<u><u>460</u></u>

NOTES

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 financial statements 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, distribution and marketing of personal care treatment products and services.

2. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements for the six months ended 31 December 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 financial statements for the six months ended 31 December 2010 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and in compliance with the applicable disclosure requirements set out in Chapter 18 to the GEM Listing Rules. The accounting policies used in the unaudited consolidated financial statements for the six months ended 31 December 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. BUSINESS AND GEOGRAPHICAL SEGMENTS

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.

Segment revenue and results

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

	PRC HK\$'000	Hong Kong HK\$'000	Consolidated HK\$'000
<i>For the six months ended 31 December 2010 (Unaudited)</i>			
Turnover			
External sales			
– Sales of beauty products	–	480	480
– Sales of beauty equipments	35,320	–	35,320
– Royalty fee income	3,532	–	3,532
– Therapy services	–	118	118
– Provision of training courses	500	280	780
	<u>39,352</u>	<u>878</u>	<u>40,230</u>
Total revenue			
	<u>39,352</u>	<u>878</u>	<u>40,230</u>
Result			
Segment result	<u>16,143</u>	<u>(1,451)</u>	14,692
Unallocated corporate incomes			–
Unallocated corporate expenses			(10,232)
Interest income			–
Finance costs			(5,248)
Taxation			<u>(1,093)</u>
Loss for the period			<u>(1,881)</u>
<i>For the six months ended 31 December 2009 (Unaudited)</i>			
Turnover			
External sales			
– Sales of beauty products	5,990	188	6,178
– Sales of beauty equipments	31,000	–	31,000
– Royalty fee income	3,699	–	3,699
– Therapy services	–	290	290
– Provision of training courses	1,000	–	1,000
	<u>41,689</u>	<u>478</u>	<u>42,167</u>
Total revenue			
	<u>41,689</u>	<u>478</u>	<u>42,167</u>
Result			
Segment result	<u>32,482</u>	<u>(3,626)</u>	28,856
Unallocated corporate incomes			21
Unallocated corporate expenses			(12,653)
Interest income			–
Finance costs			–
Taxation			<u>(3,000)</u>
Profit for the period			<u>13,224</u>

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.

3. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Segment assets and liabilities

BUSINESS SEGMENT	Sales of beauty equipments <i>HK\$'000</i>	Sales of beauty products <i>HK\$'000</i>	Therapy services <i>HK\$'000</i>	Royalty fee income <i>HK\$'000</i>	Provision of training courses <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<i>As at 31 December 2010 (Unaudited)</i>						
Assets						
Segment assets	147,758	34,730	-	6,631	49,500	238,619
Unallocated corporate assets						<u>74,212</u>
Consolidated total assets						<u><u>312,831</u></u>
Liabilities						
Segment liabilities	-	(4,984)	(4,378)	-	-	(9,362)
Unallocated corporate liabilities						(11,715)
Convertible bonds						<u>(42,950)</u>
Consolidated total liabilities						<u><u>(64,027)</u></u>
Additions of property, plant and equipment						-
Depreciation and amortisation						<u>824</u>
<i>As at 31 December 2009 (Unaudited)</i>						
Assets						
Segment assets	38,782	-	-	-	1,000	39,782
Unallocated corporate assets						<u>104,008</u>
Consolidated total assets						<u><u>143,790</u></u>
Liabilities						
Segment liabilities	-	(2,401)	(2,960)	-	-	(5,361)
Unallocated corporate liabilities						(5,055)
Convertible bonds						<u>-</u>
Consolidated total liabilities						<u><u>(10,416)</u></u>
Additions of property, plant and equipment						66
Depreciation and amortisation						<u>686</u>

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

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

Geographical information

GEOGRAPHICAL SEGMENT	PRC <i>HK\$'000</i>	Hong Kong <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<i>As at 31 December 2010 (Unaudited)</i>			
Assets			
Segment assets	193,619	15,952	209,571
Unallocated corporate assets			<u>103,260</u>
Consolidated total assets			<u><u>312,831</u></u>
Liabilities			
Segment liabilities	–	(54,325)	(54,325)
Unallocated corporate liabilities			<u>(9,702)</u>
Consolidated total liabilities			<u><u>(64,027)</u></u>
<i>As at 31 December 2009 (Unaudited)</i>			
Assets			
Segment assets	39,746	36	39,782
Unallocated corporate assets			<u>104,008</u>
Consolidated total assets			<u><u>143,790</u></u>
Liabilities			
Segment liabilities	–	(5,960)	(5,960)
Unallocated corporate liabilities			<u>(4,456)</u>
Consolidated total liabilities			<u><u>(10,416)</u></u>

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.

4. FINANCE COSTS

	(Unaudited)		(Unaudited)	
	Six months ended		Three months ended	
	31 December		31 December	
	2010	2009	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Imputed interest on convertible bonds	<u>5,248</u>	<u>–</u>	<u>2,366</u>	<u>–</u>
	<u>5,248</u>	<u>–</u>	<u>2,366</u>	<u>–</u>

5. TAXATION

	(Unaudited)		(Unaudited)	
	Six months ended		Three months ended	
	31 December		31 December	
	2010	2009	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profits tax				
– Hong Kong – current period	<u>1,093</u>	<u>3,000</u>	<u>186</u>	<u>3,000</u>
– PRC – current period	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u>1,093</u>	<u>3,000</u>	<u>186</u>	<u>3,000</u>
Deferred tax – current period	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u>1,093</u>	<u>3,000</u>	<u>186</u>	<u>3,000</u>

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profits arising in Hong Kong for the six months ended 31 December 2010 and 2009.

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

6. (LOSS)/PROFIT FOR THE PERIOD

	(Unaudited)		(Unaudited)	
	Six months ended		Three months ended	
	31 December		31 December	
	2010	2009	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
(Loss)/Profit for the period has been arrived at after charging:				
Directors' remuneration	1,140	1,140	570	570
Other staff costs	5,007	3,511	2,714	1,801
Retirement benefit scheme contributions	187	133	103	61
Total staff costs	6,334	4,784	3,387	2,432
Amortisation of intangible assets	468	468	234	234
Depreciation	356	218	178	113
Written off of fixed assets	–	161	–	161

7. DIVIDENDS

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

8. (LOSS)/EARNINGS PER SHARE

The calculation of the basic loss per share for the three months and six months ended 31 December 2010 is based on the loss for the period of approximately HK\$2,272,000 and HK\$1,881,000, and on the weighted average number of 692,960,870 ordinary shares and 638,015,217 ordinary shares in issue respectively during the periods.

The calculation of the diluted loss per share for the three months and six months ended 31 December 2010 is based on the loss for the period of approximately HK\$2,272,000 and HK\$1,881,000, and on the weighted average number of 1,022,960,870 ordinary shares and 968,015,217 ordinary shares in issue respectively during the periods.

Diluted earnings per share for the six months ended 31 December 2010 assumed the conversion of all outstanding convertible bonds of the Company, amounted to a maximum of 330,000,000 shares.

The calculation of the basic earnings per share for the three months and six months ended 31 December 2009 is based on the profit for the period of approximately HK\$11,346,000 and HK\$13,224,000, and on the weighted average number of 488,639,130 ordinary shares and 480,519,565 ordinary shares in issue respectively during the periods.

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

9. TRADE RECEIVABLES

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

	(Unaudited) As at 31 December 2010 HK\$'000	(Audited) As at 30 June 2010 HK\$'000
Aged:		
0-60 days	8,172	30,232
61-120 days	19,858	17,698
121-180 days	11,400	7,000
181-365 days	54,966	21,691
Over 365 days	21,210	7,278
	<u>115,606</u>	<u>83,899</u>
Provision for doubtful debts	(159)	(159)
	<u><u>115,447</u></u>	<u><u>83,740</u></u>

10. AMOUNT DUE TO A RELATED COMPANY

As at 31 December 2010 and 30 June 2010, the amount due to a related company, the controlling shareholder of which is the chief executive officer of the Company, is unsecured, non-interest bearing and repayable upon demand.

11. SHARE CAPITAL

	Number of Shares of HK\$0.10 each	Amount HK\$'000
<i>Authorised:</i>		
At 30 June 2009 (Audited)	1,000,000,000	100,000
Increase in authorised share capital pursuant to the ordinary resolution passed in the extraordinary general meeting held on 14 April 2010	<u>4,000,000,000</u>	<u>400,000</u>
At 30 June 2010 (Audited) and 31 December 2010 (Unaudited)	<u><u>5,000,000,000</u></u>	<u><u>500,000</u></u>
<i>Issued and fully paid:</i>		
At 30 June 2009 (Audited) and 1 July 2009 (Audited)	472,400,000	47,240
Shares issued on 2 December 2009 pursuant to a placing agreement dated 19 August 2009 and a supplemental agreement to the placing agreement dated 28 October 2009	<u>49,800,000</u>	<u>4,980</u>
At 30 June 2010 (Audited)	<u>522,200,000</u>	<u>52,220</u>
Shares issued on 15 December 2010 pursuant to subscription agreements dated 29 November 2010	80,000,000	8,000
Convertible bonds exercised	<u>270,000,000</u>	<u>27,000</u>
At 31 December 2010 (Unaudited)	<u><u>872,200,000</u></u>	<u><u>87,220</u></u>

12. 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 Scheme 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 with respect of MPF Scheme is to make the required contributions under the scheme.

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

13. EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2010, the Group had 61 employees (2009: 43) and staff costs for the six months ended 31 December 2010 (excluding directors’ remuneration) amounted to HK\$5,194,000 (2009: HK\$3,644,000) whilst the directors’ remuneration for the six months ended 31 December 2010 amounted to HK\$1,140,000 (2009: HK\$1,140,000). 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 contributions to statutory mandatory provident fund scheme to its employees in Hong Kong.

14. RELATED PARTY DISCLOSURES

a. Related party transactions

Name of party	Nature of transactions	(Unaudited) Six months ended 31 December	
		2010 HK\$’000	2009 HK\$’000
Garrick International Limited (Note)	Purchase of products	21	3,997
	Deposit paid for purchase of inventories	–	3,000
		<u>21</u>	<u>3,000</u>

Note: 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 non-executive Director of the Company, are shareholders and directors of Garrick International Limited. Garrick International Limited is owned as to 90% by Ms. Samantha Keung and as to 10% by Mr. Cheung Tsun Hin, Samson. Mr. Cheung Tsun Hin, Samson is son of Ms. Samantha Keung.

b. Compensation for key management personnel

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

	(Unaudited) Six months ended 31 December	
	2010 HK\$’000	2009 HK\$’000
Short-term employee benefits	<u>1,758</u>	<u>1,740</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 six months ended 31 December 2010, the Group recorded a turnover of approximately HK\$40,230,000 (2009: approximately HK\$42,167,000) which represented a decrease of approximately 4.6% over the corresponding period last year. The gross profit amounted to approximately HK\$14,692,000 (2009: approximately HK\$28,856,000) for the six months ended 31 December 2010, representing a decrease of 49.1% over the corresponding period last year. The decrease in turnover and gross profit were mainly attributable to periodic sales clearance.

Selling and distribution costs for the six months ended 31 December 2010 amounted to approximately HK\$3,341,000 (2009: HK\$7,288,000), representing a decrease of 54.2% over the corresponding period last year. The decrease in selling and distribution costs was mainly due to less marketing and promotional expenditure for the development of the distributorship business in the PRC.

Administrative expenses for the six months ended 31 December 2010 amounted to approximately HK\$6,891,000 (2009: approximately HK\$5,365,000), representing an increase of approximately 28.4% over the corresponding period last year. It was mainly due to the increase in legal and professional expenses incurred for the Group's possible acquisitions and increase in rentals for the Company's new office.

Finance costs for the six months ended 31 December 2010 amounted to approximately HK\$5,248,000 (2009: Nil). The finance costs relates to the imputed interest on the convertible bonds issued in April 2010.

The Group's loss for the six months ended 31 December 2010 was approximately HK\$1,881,000 (2009: profit of approximately HK\$13,224,000). Excluding the imputed interest on the convertible bonds, profit before finance costs for the period under review was approximately HK\$4,460,000, representing a decrease of approximately 72.5% over the corresponding period of 2009.

Liquidity and financial resources

As at 31 December 2010, the equity attributable to equity holders of the Company amounted to approximately HK\$248,804,000, representing an increase of approximately HK\$60,939,000 or 32.4% as compared with that as at 30 June 2010.

As at 31 December 2010, current ratio of the Group was approximately 14.4 (30 June 2010: 14.4).

As at 31 December 2010, the cash and bank balances of the Group were HK\$13,632,000 (30 June 2010: HK\$1,752,000).

For the six months ended 31 December 2010, the Group mainly financed its operations with internally generated resources and from the issuance of 80,000,000 new shares on 15 December 2010, generating net proceeds of approximately HK\$28,837,000.

Capital structure

On 15 December 2010, the Company issued 80,000,000 ordinary shares with a par value of HK\$0.10 each at the subscription price of HK\$0.375 per share, generating net proceeds of approximately HK\$28,837,000.

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. During the six months ended 31 December 2010, the convertible bonds in a total principal amount of HK\$51,300,000 were converted into 270,000,000 ordinary shares of the Company. The liability component as at 31 December 2010 amounted to approximately HK\$42,950,000.

Subsequent to 31 December 2010, the convertible bonds in a total principal amount of HK\$24,700,000 were converted into 130,000,000 ordinary shares of the Company.

As at 31 December 2010, the shareholder's equity of the Company increased to approximately HK\$248,804,000 (2009: approximately HK\$187,865,000). Details of the changes in equity are set out in the Condensed Consolidated Statement of Changes in Equity in this report.

Save as the issuance of convertible bonds above, the Group had no material borrowings as at 31 December 2010.

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

Gearing ratio

As at 31 December 2010, the Group's gearing ratio, expressed as a ratio of total borrowings to total assets, was 13.7% (30 June 2010: 25.8%). The decrease in the gearing ratio is resulted from the conversion of the convertible bonds into ordinary shares during the period.

Business Review

During the period under review, the turnover of the Group amounted to approximately HK\$40,230,000, representing a decrease of approximately 4.6% from HK\$42,167,000 the turnover during the same period last year. In addition, the Group resulted in loss for the six months ended 31 December 2010 due to the imputed interest attributed to the convertible bonds issued by the Company in late April 2010. Without taking into account the imputed interest for the convertible bonds, the profit before finance costs of the Group for the period under review would have been approximately HK\$4,460,000.

In order to increase the Group's market share of the local cosmetic retail and spa service sectors, during the period under review, the Group opened a cosmetic sales counter in World Trade Centre, one of the highest pedestrian traffic locations in Causeway Bay in the month of December. Following the success experienced by the Group in the operation of the spa service centre in AquaMarine, Long Beach, and Hampton Place, the Group opened a spa centre at Serenade, another high end residential apartment complex developed by Hong Kong Land Holdings Limited in Tai Hang Road, Causeway Bay during the month of October.

During the period under review, the Group took part in the Cosmoprof Asia 2010, a leading international beauty trade show event held in November in Hong Kong. The Group strongly believes that by maintaining its presence at such international trade venue it will be able to broaden its distribution network in oversea markets.

Prospect

Given the successful opening and operation of Blu Spa cosmetic sales and spa service counters at leading lifestyle department stores and shopping centres such as Harvey Nichols, CITISTORE, World Trade Centre, and specialty shop such as ID:C, the Group is planning to set up a cosmetic sales counter at Mikiki, which is a new shopping centre to be opened in Kowloon in the course of 2011. At the same time, the Group is actively seeking further spa facility management opportunity in high-end residential estates and hotels.

The Group will continue its focus on the continuing expansion of its distribution network and new franchise business pertaining to hair rejuvenation center in Hong Kong and the PRC. The Group will actively participate in major international beauty trade events such as the Cosmoprof Asia, which serve as a major venue for strengthening the 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, 29 October 2010 and 1 February 2011. 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 1 February 2011, BSHK and the Vendor entered into a supplemental agreement to the S&P Agreement, pursuant to which BSHK and the Vendor agreed to, among others, extend the long stop date of the S&P Agreement to 30 June 2011 (or such later date as BSHK and the Vendor may agree).

Given the Deposit of HK\$45,000,000 represents approximately 14.4% of the total asset value of the Group as at 31 December 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, 27 August 2010 and 31 December 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 31 December 2010, the Purchaser, the Vendor and the Guarantor have mutually agreed that the exclusivity clause of the HOA for entering into the S&P Agreement will not be further extended and it has expired on 31 December 2010. However, the negotiations of the Possible Acquisition remain underway amongst the Purchaser, the Vendor and the Guarantor with a view to enter into the S&P Agreement.

Given the refundable earnest money of HK\$25,000,000 represents approximately 7.992% of the total asset value of the Group as at 31 December 2010 under the assets ratio (as defined under Rule 19.07(1) of the GEM Listing Rules), it does not constitute 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 six months ended 31 December 2010 (2009: Nil).

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

As at 31 December 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. Chan Choi Har ("Ms. Ivy Chan")	Beneficial owner	2,000,000	0.23%
	Corporate interest	11,065,787 (Note 1)	1.27%
Mr. Ji He Qun	Beneficial owner	53,450,000	6.13%
	Interest of spouse	2,860,000	0.33%
<i>Chief executive officer</i>			
Ms. Samantha Keung	Corporate interest	175,682,200 (Note 2)	20.14%

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 31 December 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 31 December 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 to acquire benefit by means of acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the Directors or their spouses or children under the age 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2010, so far as is known to the Directors and chief executives of the Company, the following persons (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)	20.14%
Million Fortune Group Limited	Interest of controlled corporation	175,682,200 (Note)	20.14%
Ms. Samantha Keung	Interest of controlled corporation	175,682,200 (Note)	20.14%
Mr. Ji He Qun	Beneficial owner	53,450,000	6.13%
	Interest of spouse	2,860,000	0.33%

Note: As at 31 December 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 31 December 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 six months ended 31 December 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 six months ended 31 December 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 do not have specific terms of appointment. However, pursuant to the Bye-laws of the Company, all Directors (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 currently the Chairman and non-executive Director of the Company. 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 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, 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 comprises seven Directors, of which two are executive Directors, namely Ms. Ivy Chan and Mr. Ji He Qun, two are non-executive Directors, namely Mr. Cheung Tsun Hin, Samson and 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 interim results for the six months ended 31 December 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, 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, 10 February 2011

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