



China AU Group Holdings Limited

中國金豐集團控股有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8176)

**THIRD QUARTERLY REPORT
FOR THE NINE MONTHS ENDED
31 MARCH 2011**

* *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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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 nine months ended 31 March 2011 was approximately HK\$45,498,000, representing a decrease of approximately 17.3% over the corresponding period of 2010.
- Loss for the nine months ended 31 March 2011 was approximately HK\$6,696,000 (2010: profit of approximately HK\$17,889,000). Excluding the imputed interest on the convertible bonds, loss before finance costs for the period under review was approximately HK\$549,000.
- Basic and diluted loss per share for the nine months ended 31 March 2011 were HK0.89 cents (2010: basic earnings per share of HK3.62 cents) and HK0.70 cents (2010: N/A) respectively.
- The board did not recommend the payment of an interim dividend for the nine months ended 31 March 2011.

UNAUDITED QUARTERLY RESULTS

The board of directors (the "Board") of China AU Group Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated quarterly results of the Company and its subsidiaries (the "Group") for the three months and nine months ended 31 March 2011 together with the comparative figures for the corresponding periods in 2010. The condensed consolidated quarterly results have not been audited, but have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	(Unaudited)		(Unaudited)	
		For the		For the	
		nine months ended		three months ended	
		31 March		31 March	
		2011	2010	2011	2010
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	3	45,498	55,029	5,268	12,862
Cost of sales		<u>(29,916)</u>	<u>(16,441)</u>	<u>(4,378)</u>	<u>(3,130)</u>
Gross profit		15,582	38,588	890	9,732
Other revenue		3	–	3	(21)
Selling and distribution costs		(5,121)	(8,741)	(1,780)	(1,453)
Administrative expenses		<u>(11,013)</u>	<u>(8,458)</u>	<u>(4,122)</u>	<u>(3,093)</u>
(Loss)/Profit before finance costs		(549)	21,389	(5,009)	5,165
Finance costs					
– Imputed interest on convertible bonds	4	<u>(5,745)</u>	<u>–</u>	<u>(497)</u>	<u>–</u>
(Loss)/Profit before taxation		(6,294)	21,389	(5,506)	5,165
Taxation	5	<u>(402)</u>	<u>(3,500)</u>	<u>691</u>	<u>(500)</u>
(Loss)/Profit for the period	6	<u><u>(6,696)</u></u>	<u><u>17,889</u></u>	<u><u>(4,815)</u></u>	<u><u>4,665</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>(0.89)</u></u>	<u><u>3.62</u></u>	<u><u>(0.49)</u></u>	<u><u>0.89</u></u>
Diluted		<u><u>(0.70)</u></u>	<u><u>N/A</u></u>	<u><u>(0.41)</u></u>	<u><u>N/A</u></u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	(Unaudited)		(Unaudited)	
	For the		For the	
	nine months ended		three months ended	
	31 March		31 March	
	2011	2010	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
(Loss)/Profit for the period	(6,696)	17,889	(4,815)	4,665
Other comprehensive income/(expense)				
Exchange differences arising from translation of foreign operations	<u>3</u>	<u>(4)</u>	<u>5</u>	<u>27</u>
Other comprehensive income/(expense) for the period (net of tax)	<u>3</u>	<u>(4)</u>	<u>5</u>	<u>27</u>
Total comprehensive (expense)/income for the period	<u>(6,693)</u>	<u>17,885</u>	<u>(4,810)</u>	<u>4,692</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.

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

2. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated results for the nine months ended 31 March 2011 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 nine months ended 31 March 2011 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 applicable disclosure requirements set out in Chapter 18 of the GEM Listing Rules. The accounting policies used in the unaudited consolidated results for the nine months ended 31 March 2011 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 segments are as follows:

	PRC HK\$'000	Hong Kong HK\$'000	Consolidated HK\$'000
<i>For the nine months ended 31 March 2011 (Unaudited)</i>			
Turnover			
External sales			
– Sales of beauty equipments	35,320	–	35,320
– Sales of beauty products	3,046	782	3,828
– Royalty fee income	3,836	–	3,836
– Therapy services	–	1,728	1,728
– Provision of training courses	500	286	786
	<u>42,702</u>	<u>2,796</u>	<u>45,498</u>
Total revenue			
	<u>42,702</u>	<u>2,796</u>	<u>45,498</u>
Result			
Segment result	<u>15,716</u>	<u>(134)</u>	15,582
Unallocated corporate incomes			–
Unallocated corporate expenses			(16,134)
Interest income			3
Finance costs			(5,745)
Taxation			<u>(402)</u>
Loss for the period			<u>(6,696)</u>

	PRC HK\$'000	Hong Kong HK\$'000	Consolidated HK\$'000
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For the nine months ended 31 March 2010 (Unaudited)

Turnover

External sales			
– Sales of beauty equipments	42,000	–	42,000
– Sales of beauty products	5,990	346	6,336
– Royalty fee income	4,799	–	4,799
– Therapy services	–	394	394
– Provision of training courses	1,500	–	1,500
	<u>54,289</u>	<u>740</u>	<u>55,029</u>
Total revenue			

Result

Segment result	<u>44,086</u>	<u>(5,498)</u>	38,588
Unallocated corporate incomes			–
Unallocated corporate expenses			(17,199)
Interest income			–
Finance costs			–
Taxation			<u>(3,500)</u>
Profit for the period			<u>17,889</u>

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.

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

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

4. FINANCE COSTS

	(Unaudited) Nine months ended 31 March		(Unaudited) Three months ended 31 March	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Imputed interest on convertible bonds	<u>5,745</u>	–	<u>497</u>	–
	<u>5,745</u>	–	<u>497</u>	–

5. TAXATION

	(Unaudited)		(Unaudited)	
	Nine months ended		Three months ended	
	31 March		31 March	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profits tax				
– Hong Kong – current period	402	3,500	(691)	500
– PRC – current period	–	–	–	–
	402	3,500	(691)	500
Deferred tax – current period	–	–	–	–
	402	3,500	(691)	500

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profits arising in Hong Kong for the nine months ended 31 March 2011 and 2010.

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)	
	Nine months ended		Three months ended	
	31 March		31 March	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Loss)/Profit for the period has been arrived at after charging:				
Directors' remuneration	1,710	1,710	570	570
Other staff costs	8,323	5,385	3,316	1,874
Retirement benefit scheme contributions	284	185	97	52
Total staff costs	10,317	7,280	3,983	2,496
Amortisation of intangible assets	702	702	234	234
Depreciation	534	307	178	89
Written off of fixed assets	–	161	–	–

7. DIVIDENDS

The Board did not recommend the payment of an interim dividend for the nine months ended 31 March 2011 (2010: Nil).

8. (LOSS)/EARNINGS PER SHARE

The calculation of the basic loss per share for the three months and nine months ended 31 March 2011 is based on the loss for the period of approximately HK\$4,815,000 and HK\$6,696,000, and on the weighted average number of 983,533,334 ordinary shares and 751,506,569 ordinary shares in issue respectively during the periods.

The calculation of the diluted loss per share for the three months and nine months ended 31 March 2011 is based on the loss for the period of approximately HK\$4,815,000 and HK\$6,696,000, and on the weighted average number of 1,183,533,334 ordinary shares and 951,506,569 ordinary shares in issue respectively during the periods.

Diluted earnings per share for the nine months ended 31 March 2011 assumed the conversion of all outstanding convertible bonds of the Company, amounted to a maximum of 200,000,000 shares.

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

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

9. RESERVES

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

	Share premium <i>HK\$'000</i>	Merger difference <i>HK\$'000</i>	(Unaudited) 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
Loss for the period	-	-	-	-	(6,696)	(6,696)
Other comprehensive income for the period:						
Exchange differences arising from translation of operations outside Hong Kong	-	-	-	3	-	3
Total comprehensive (expense)/ income for the period	-	-	-	3	(6,696)	(6,693)
Issue of new shares pursuant to subscription agreements dated 29 November 2010	22,000	-	-	-	-	22,000
Transaction costs attributable to issue of new shares	(1,163)	-	-	-	-	(1,163)
Convertible bonds exercised	39,007	-	(27,996)	-	-	11,011
At 31 March 2011	<u>149,978</u>	<u>22,735</u>	<u>12,570</u>	<u>(18)</u>	<u>(24,465)</u>	<u>160,800</u>

	Share premium HK\$'000	Merger difference HK\$'000	(Unaudited) Convertible bonds equity reserve HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 July 2009	57,060	22,735	–	(26)	(44,882)	34,887
Profit for the period	–	–	–	–	17,889	17,889
Other comprehensive expense for the period:						
Exchange differences arising from translation of operations outside Hong Kong	–	–	–	(4)	–	(4)
Total comprehensive (expense)/ income for the period	–	–	–	(4)	17,889	17,885
Issue of new shares pursuant to a placing agreement dated 19 August 2009	34,860	–	–	–	–	34,860
Transaction costs attributable to issue of new shares	(1,786)	–	–	–	–	(1,786)
At 31 March 2010	<u>90,134</u>	<u>22,735</u>	<u>–</u>	<u>(30)</u>	<u>(26,993)</u>	<u>85,846</u>

10. RELATED PARTY DISCLOSURES

a. Related party transactions

Name of party	Nature of transactions	(Unaudited) Nine months ended 31 March	
		2011 HK\$'000	2010 HK\$'000
Garrick International Limited (<i>Note</i>)	Purchase of products	40	3,998
	Deposit paid for purchase of inventories	–	3,000

Note: Ms. Keung Wai Fun (“Ms. Samantha Keung”), chief executive officer of the Company, and Mr. Cheung Tsun Hin, Samson, 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) Nine months ended 31 March	
	2011 HK\$'000	2010 HK\$'000
Short-term employee benefits	<u>2,637</u>	<u>2,610</u>

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

MANAGEMENT DISCUSSION AND ANALYSIS

Results of operation

For the nine months ended 31 March 2011, the Group recorded a turnover of approximately HK\$45,498,000 (2010: approximately HK\$55,029,000) which represented a decrease of approximately 17.3% over the corresponding period last year. The gross profit for the nine months ended 31 March 2011 amounted to approximately HK\$15,582,000 (2010: approximately HK\$38,588,000), representing a decrease of 59.6% over the corresponding period last year. The decrease in turnover and gross profit were mainly due to the Group revamping its distribution and marketing strategies.

Selling and distribution costs for the nine months ended 31 March 2011 amounted to approximately HK\$5,121,000 (2010: HK\$8,741,000), representing a decrease of 41.4% 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 nine months ended 31 March 2011 amounted to approximately HK\$11,013,000 (2010: approximately HK\$8,458,000), representing an increase of approximately 30.2% 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 nine months ended 31 March 2011 amounted to approximately HK\$5,745,000 (2010: Nil). The finance costs relates to the imputed interest on the convertible bonds issued in April 2010.

The Group's loss for the nine months ended 31 March 2011 was approximately HK\$6,696,000 (2010: profit of approximately HK\$17,889,000). Excluding the imputed interest on the convertible bonds, loss before finance costs for the period under review was approximately HK\$549,000.

Business Review

During the period under review, the turnover of the Group amounted to approximately HK\$45,498,000 representing a decrease of approximately 17.3% from HK\$55,029,000 the turnover during the same period last year. In addition, the Group resulted in loss for the nine months ended 31 March 2011 due to imputed interest attributed to the convertible bonds issued by the Company in late April 2010 and due to the Group revamping its distribution and marketing strategies.

In order to redefine its distribution network geographically, during the period under review, the Group appointed a new distributor responsible for the Northern region in PRC. The Group believes that the grant of such new distributorship will strengthen its distribution network and sales in Northern Region of PRC and gain market recognition of its products and services.

Prospect

Given the growing demand for high quality and effective beauty products and services in China, the Group will continue to direct its focus on continuing expansion of its distribution network and growth of its new franchising business. As regards the hair care franchising business, the Group will continue to seek and recruit young entrepreneurs who are especially interested in investing in and developing hair care franchise. The Group believes that the franchising business of hair care is in the position to contribute to the expansion of the Group's market share in Hong Kong and in PRC.

Given the successful opening and operation of Blu Spa cosmetic sales and spa service counters at leading lifestyle department stores and shopping centres, the Group will continue to identify and secure suitable locations to open Blu Spa cosmetic sales and spa service counters. At the same time, the Group is actively seeking further spa facility management opportunity in high-end residential estates and hotels in Hong Kong and the PRC.

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, 1 February 2011, 14 February 2011 and 28 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 14.6% of the total asset value of the Group as at 31 March 2011 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 8.1% of the total asset value of the Group as at 31 March 2011 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 nine months ended 31 March 2011 (2010: Nil).

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

As at 31 March 2011, 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>			
Mr. Ji He Qun	Beneficial owner	264,355,000	26.38%
	Interest of spouse	6,760,000	0.67%
Ms. Chan Choi Har (“Ms. Ivy Chan”)	Beneficial owner	2,000,000	0.20%
	Corporate interest	11,065,787 (Note 1)	1.10%
Mr. Gu Da Xin	Beneficial owner	27,400,000	2.73%
<i>Chief executive officer</i>			
Ms. Samantha Keung	Corporate interest	682,200 (Note 2)	0.07%

Notes:

- These shares are held by XO-Holdings Limited. The issued share capital of XO-Holdings Limited is beneficially owned as to 65% by Ms. Ivy Chan.

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

Save as disclosed above, as at 31 March 2011, 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 any of 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 full exercise of all options to be granted under the Share Option Scheme is an amount equivalent to 10% of the shares of the Company in issue as at the date of the annual general meeting held on 28 December 2009.

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

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

As at 31 March 2011, 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 March 2011, 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
Mr. Ji He Qun	Beneficial owner	264,355,000	26.38%
<i>(Executive Director)</i>	Interest of spouse	6,760,000	0.67%

Save as disclosed above, the Directors and chief executives of the Company are not aware of any person (other than the Directors and chief executives of the Company as disclosed above) who, as at 31 March 2011, had any interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for the nine months ended 31 March 2011.

COMPETING INTERESTS

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

CORPORATE GOVERNANCE

For the nine months ended 31 March 2011, 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. Ji He Qun is currently the Chairman and 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 eight Directors, of which three are executive Directors, namely Mr. Ji He Qun, Ms. Ivy Chan and Mr. Gu Da Xin, 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 Ms. Liu Jiang. 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 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 Ms. Liu Jiang. Mr. Chan Sze Hon is the Chairman of the Audit Committee.

The Group's unaudited quarterly results for the nine months ended 31 March 2011 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 Ms. Liu Jiang. 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
Ji He Qun
Chairman

Hong Kong, 9 May 2011

As at the date of this report, the Board comprises three executive Directors, namely Mr. Ji He Qun, Ms. Chan Choi Har, Ivy and Mr. Gu Da Xin; 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 Ms. Liu Jiang.