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 2011

* *For identification purpose only*

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

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

Given the emerging nature of companies listed on GEM, there is a risk that securities 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.

This report, for which the directors (the "Directors") of China AU Group Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

This report will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for a minimum period of 7 days from the date of its publication and on the Company's website at www.china-au-group.com.

UNAUDITED INTERIM RESULTS

The board of Directors (the "Board") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 31 December 2011 together with the comparative unaudited figures for the corresponding period in 2010 as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and six months ended 31 December 2011

		For the three months ended 31 December		For the six months ended 31 December	
		2011	2010	**2011**	2010
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
			(Restated)		(Restated)
Continuing operations					
Turnover	*5*	**–**	11,461	**–**	36,198
Cost of sales		**–**	(6,678)	**–**	(25,538)
Gross profit		**–**	4,783	**–**	10,660
Other revenue		**–**	–	**–**	–
Selling and distribution costs		**–**	(2,017)	**–**	(3,020)
Administrative expenses		**(1,076)**	(3,172)	**(2,015)**	(6,492)
Impairment loss recognised in respect of intangible assets		**–**	–	**(7,488)**	–
Impairment loss recognised in respect of deposits, prepayments and other receivables		**489**	–	**(229,445)**	–
Gain on de-consolidation of subsidiaries	*18*	**–**	–	**155,547**	
Finance costs	*6*	**–**	(2,366)	**–**	(5,248)
Loss before taxation	*7*	**(587)**	(2,772)	**(83,401)**	(4,100)
Income tax expense	*8*	**–**	(186)	**–**	(1,093)
Loss for the period from continuing operations		**(587)**	(2,958)	**(83,401)**	(5,193)
Discontinued operations					
Profit for the period from discontinued operations	*9*	**–**	686	**–**	3,312
Loss for the period		**(587)**	(2,272)	**(83,401)**	(1,881)

	Notes	For the three months ended 31 December **2011** (Unaudited) *HK$'000*	2010 (Unaudited) *HK$'000*	For the six months ended 31 December **2011** (Unaudited) *HK$'000*	2010 (Unaudited) *HK$'000*
Other comprehensive income/(expense)					
Exchange differences arising on translation of foreign operations		**–**	(1)	**–**	(2)
Release of translation reserve upon de-consolidation of subsidiaries		**–**	–	**4**	–
Other comprehensive income/ (expense) for the period		**–**	(1)	**4**	(2)
Total comprehensive expense for the period		**(587)**	(2,273)	**(83,397)**	(1,883)
Loss for the period attributable to:					
Owners of the Company		**(587)**	(2,272)	**(83,401)**	(1,881)
Total comprehensive expense for the period attributable to:					
Owners of the Company		**(587)**	(2,273)	**(83,397)**	(1,883)
Loss per share (HK cents)	*10*				
From continuing and discontinued operations					
– Basic		**(0.04)**	(0.33)	**(6.45)**	(0.29)
– Diluted		**N/A**	N/A	**N/A**	N/A
From continuing operations					
– Basic		**(0.04)**	(0.42)	**(6.45)**	(0.81)
– Diluted		**N/A**	N/A	**N/A**	N/A

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2011

	Notes	At 31 December 2011 (Unaudited) HK$'000	At 30 June 2011 (Audited) HK$'000
Non-current assets			
Intangible assets	*11*	–	7,488
Property, plant and equipment	*12*	–	2,138
		–	9,626
Current assets			
Inventories	*13*	–	975
Trade receivables	*14*	–	3,158
Deposits, prepayments and other receivables		**48,947**	119,015
Bank balances and cash	*15*	**161**	1,436
		49,108	124,584
Current liabilities			
Amount due to a former director		**2**	219
Amounts due to related companies		–	2,033
Amount due to a related party		–	385
Deposits from customer		–	4,446
Accruals and other payables	*16*	**6,645**	9,763
Other borrowing		–	2,000
Provision for taxation		–	5,594
		6,647	24,440
Net current assets		**42,461**	100,144
Net assets		**42,461**	109,770
Equity attributable to owners of the Company			
Share capital	*17*	**131,220**	120,220
Reserves		**(88,759)**	(10,450)
Total equity		**42,461**	109,770

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2011

	Share capital *HK$'000*	Share premium *HK$'000*	Merger reserve *HK$'000* *(Note 1)*	Convertible bonds equity reserve *HK$'000*	Translation reserve *HK$'000* *(Note 2)*	Accumulated losses *HK$'000*	Total equity *HK$'000*
At 1 July 2010 (audited)	52,220	90,135	22,734	40,566	(21)	(17,769)	187,865
Loss for the period	–	–	–	–	–	(1,881)	(1,881)
Other comprehensive expense for the period							
Exchange differences arising on translation of foreign operations	–	–	–	–	(2)	–	(2)
Total comprehensive expense for the period	–	–	–	–	(2)	(1,881)	(1,883)
Issue of shares pursuant to the subscription agreements dated 29 November 2010	8,000	22,000	–	–	–	–	30,000
Transaction costs attributable to issue of new shares	–	(1,163)	–	–	–	–	(1,163)
Issue of shares on conversion of convertible bonds	27,000	25,882	–	(18,897)	–	–	33,985
At 31 December 2010 (unaudited)	87,220	136,854	22,734	21,669	(23)	(19,650)	248,804
At 1 July 2011 (audited)	**120,220**	**170,269**	**22,734**	**–**	**(4)**	**(203,449)**	**109,770**
Loss for the period	**–**	**–**	**–**	**–**	**–**	**(83,401)**	**(83,401)**
Other comprehensive income for the period							
Exchange differences arising on translation of foreign operations	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Release of translation reserve upon de-consolidation of subsidiaries	**–**	**–**	**–**	**–**	**4**	**–**	**4**
Total comprehensive expense for the period	**–**	**–**	**–**	**–**	**4**	**(83,401)**	**(83,397)**
Issue of shares pursuant to the placing agreement dated 27 July 2011	**11,000**	**5,500**	**–**	**–**	**–**	**–**	**16,500**
Transaction costs attributable to issue of new shares	**–**	**(412)**	**–**	**–**	**–**	**–**	**(412)**
At 31 December 2011 (unaudited)	**131,220**	**175,357**	**22,734**	**–**	**–**	**(286,850)**	**42,461**

Notes:

1) Merger reserve

The merger reserve of the Group represents the differences between the carrying amount of the share capital and share premium of Blu Spa Group Limited at the date on which it was acquired by the Company and the nominal amount of the Company's share issued in exchange pursuant to the Group Reorganisation.

2) Translation reserve

Exchange differences arising from the translation of the net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. Hong Kong dollars) are recognised directly in other comprehensive income and accumulated in the translation reserve.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2011

	For the six months ended 31 December	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Net cash used in operating activities	**(17,363)**	(16,955)
Net cash used in investing activities	**–**	–
Net cash generated from financing activities	**16,088**	28,837
Net decrease in cash and cash equivalents	**(1,275)**	11,882
Cash and cash equivalents at the beginning of the period	**1,436**	1,752
Effect of foreign exchange rate changes	**–**	(2)
Cash and cash equivalents at the end of the period	**161**	13,632
Analysis of balances of cash and cash equivalents		
Bank balances and cash	**161**	13,632

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on the Stock Exchange. The addresses of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and the principal place of business of the Company in Hong Kong is Unit B, 9/F., The Grande Building, 398 Kwun Tong Road, Kowloon, Hong Kong.

The unaudited condensed consolidated financial statements are presented in units of thousands of Hong Kong dollars ("HK$'000"), which is the same as the functional currency of the Company except otherwise indicated.

The Company's principal activity is investment holding and the principal activities of its principal subsidiaries are product distribution and customer support services.

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

The accounting policies used in the preparation of the Interim Financial Statements are consistent with those used in the annual financial statements of the Group for the year ended 30 June 2011, except for the impact of the adoption of the new and revised Hong Kong Accounting Standard, Hong Kong Financial Reporting Standards and interpretations described below.

In the current period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations (the "new and revised HKFRSs") issued by the HKICPA.

HKFRSs (Amendments)	Improvements to HKFRSs 2010
HKFRS 1 (Amendments)	Disclosures – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
HKFRS 7 (Amendments)	Disclosures – Transfer of Financial Assets
HKAS 24 (Revised)	Related Party Disclosures
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement

The adoption of the new and revised HKFRSs has no material effect on the Interim Financial Statements for the current or prior accounting period.

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

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

Annual Improvements 2009 – 2011 Cycle	Amendments to a number of HKFRSs issued in June 2012[3]
HKFRS 1 (Amendments)	Amendments to HKFRS 1 First Time Adoption of Hong Kong Financial Reporting Standards – Government Loans[3]
HKFRS 7 (Amendments)	Disclosures – Offsetting Financials Assets and Financial Liabilities[3]
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosure[5]
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[3]
HKFRS 9	Financial Instruments[5]
HKFRS 10	Consolidated Financial Statements[3]
HKFRS 11	Joint Arrangements[3]
HKFRS 12	Disclosure of Involvement with Other Entities[3]
HKFRS 13	Fair Value Measurement[3]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[2]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[1]
HKAS 19 (Revised 2011)	Employee Benefits[3]
HKAS 27 (Revised 2011)	Separate Financial Statements[3]
HKAS 28 (Revised 2011)	Investment in Associates and Joint Ventures[3]
HKAS 32 (Amendments)	Presentation – Offsetting Financial Assets and Financial Liabilities[4]
HK(IFRIC) – Int 20	Stripping costs in the Production Phase of a Surface Mine[3]

[1] Effective for annual periods beginning on or after 1 January 2012
[2] Effective for annual periods beginning on or after 1 July 2012
[3] Effective for annual periods beginning on or after 1 January 2013
[4] Effective for annual periods beginning on or after 1 January 2014
[5] Effective for annual periods beginning on or after 1 January 2015

The Group is in the process of assessing the potential impact of these new and revised HKFRSs but is not yet in a position to determine whether these new and revised HKFRSs will have a significant impact on how its results of operations and financial position are prepared and presented. These new and revised HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

3. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The unaudited condensed consolidated financial statements for the six months ended 31 December 2011 have been prepared under the historical cost convention, except for certain financial assets which are stated at their fair values.

The unaudited condensed consolidated financial statements for the six months ended 31 December 2011 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"), except for the non-consolidation of certain subsidiaries of the Group as explained below, and accounting principles generally accepted in Hong Kong. In addition, the unaudited condensed consolidated financial statements include applicable disclosures required by the GEM Listing Rules and of the Hong Kong Companies Ordinance.

The preparation of unaudited condensed consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

The accounting policies and basis of preparation adopted in the preparation of the unaudited condensed consolidated financial statements are consistent with those adopted in annual financial statements for the year ended 30 June 2011.

All significant intercompany transactions, balances and unrealized gain in transaction within the Group have been eliminated on consolidation.

Certain comparatives figures have been reclassified to conform with current period's presentation.

Going Concern basis

These unaudited condensed consolidated financial statements have been prepared on a going concern basis notwithstanding that the Group incurred a loss attributable to the owners of the Company of approximately HK$83,401,000 for the period ended 31 December 2011, which indicates the existence of a material uncertainty and may cast significant doubt about the Group's ability to continue as a going concern.

The Directors have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

The Directors have taken the followings actions to mitigate the liquidity issue faced by the Group and improves its financial position which include, but are not limited to, the followings: (i) the repayment of the amount due from Blu Spa (Hong Kong) Limited (the "BSHK") of approximately HK$47,627,000; and (ii) the extension of repayment of a loan facility of HK$19,586,000 granted by a company owned by an executive director as at 30 June 2012 (the "Proposed Plans").

The unaudited condensed consolidated financial statements of the Group have been prepared on a going concern basis on the basis that the Proposed Plans will be successfully completed.

In the opinion of the Directors, if the Proposed Plans accomplished successfully, the Group would be able to generate sufficient funds to meet its future working capital requirements and financial obligations when they fall due. Accordingly, the Directors consider that it is appropriate to prepare these unaudited condensed consolidated financial statements on a going concern basis.

3. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS *(Continued)*

The applicability of the going concern basis depends on the outcome of the Proposed Plans which the eventual outcome is uncertain and the Group's ability to generate sufficient funds to meet its future working capital requirements and financial obligations when they fall due. These unaudited condensed consolidated financial statements do not include any adjustments for possible failure of the Proposed Plans and the continuance of the Group as a going concern. Should the Group be unable to continue as a going concern, adjustments would have to be made to the unaudited condensed consolidated financial statements to reduce the value of the assets of the Group to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effects of these adjustments have not been reflected in these unaudited condensed consolidated financial statements.

Material Uncertainty relating to the Investigation

As set out in the Company's announcement dated 18 July 2012, the Company received a letter from the Stock Exchange setting out the following conditions which must be satisfied by the Company before the Stock Exchange considers any application for trading resumption:

(a) engage an independent professional adviser acceptable to the Stock Exchange to conduct a forensic investigation to address (i) all the issues raised by the predecessor auditors in their resignation letter dated 7 March 2012; and (ii) all the issues raised by the Company's current auditors in its independent auditors' report dated 8 June 2012 (the "Investigation");

(b) inform the market of all material information (including the findings of the forensic investigation of (a) above) that is necessary to appraise the Group's position;

(c) publish all outstanding financial results and reports, and address any other concerns raised by the Company's auditors; and

(d) demonstrate that the Group has adequate financial reporting procedures and internal control systems to meet the obligations under the GEM Listing Rules.

As a result, the Company had appointed RSM Nelson Wheeler Corporate Advisory Limited to conduct a forensic investigation to address (i) all the issues raised by the predecessor auditors in their resignation letter dated 7 March 2012; and (ii) all the issues raised by the Company's current auditors in its independent auditor's report dated 8 June 2012. Up to the date of this report, the Board is still in process of considering the findings of the Investigation. Based on the information available to the Directors up to the date of this report, the Directors consider that the accounting treatment in respect of those transactions asserted to have been undertaken by the Unconsolidated Subsidiaries (as defined below) is appropriate.

3. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS *(Continued)*

Subsidiaries not consolidated

The unaudited condensed consolidated financial statements were prepared based on the books and records maintained by the Company and its subsidiaries. However, the directors and management of certain subsidiaries of the Company, namely, BSHK and its subsidiaries (the “BSHK Group”), Clapton Holdings Limited, Blu Spa International Limited and Blu Spa Management Services Limited (collectively referred to as the “Unconsolidated Subsidiaries”), have not provided complete documentary information and reasonable explanation in respect of the transactions asserted to have been undertaken. The Directors have not been able to obtain complete documentary information to satisfy themselves regarding the accounting treatments in respect of those transactions for the period ended 31 December 2011. As such, the results, assets and liabilities of the Unconsolidated Subsidiaries have not been included into the unaudited condensed consolidated financial statements of the Group since 1 July 2011. The resulting gain on de-consolidation, which is determined based on the net asset value of the Unconsolidated Subsidiaries as at 1 July 2011 of approximately HK$155,547,000 have been recognised in the unaudited condensed consolidated statements of comprehensive income for the six months ended 31 December 2011. Moreover, as at 31 December 2011, the total amounts due from the Unconsolidated Subsidiaries to the Group of approximately HK$277,072,000, among which approximately HK$229,445,000 is considered not recoverable and impairment losses have been recognised in the unaudited condensed consolidated financial statement. The Directors consider that the remaining balances of the amounts due from the Unconsolidated Subsidiaries to the Group of approximately HK$47,627,000 could be recovered in full. Details of de-consolidation of the Unconsolidated Subsidiaries are set out in note 18 to the unaudited condensed consolidated financial statements.

Due to the significance of the operations of the Unconsolidated Subsidiaries, any adjustments to the transactions asserted to have been undertaken by the Unconsolidated Subsidiaries may have a significant consequential effect on the net assets of the Group as at 31 December 2011 and the results of the Group for the period then ended.

In the opinion of the Directors, the unaudited condensed consolidated financial statements as at 31 December 2011 and for the period then ended prepared on the aforementioned basis present more fairly the results and state of affairs of the Group as a whole in light of the aforesaid incomplete books and records of the Unconsolidated Subsidiaries. However, the de-consolidation of the Unconsolidated Subsidiaries from the beginning of the period are not in compliance with the requirements of Hong Kong Accounting Standard 27 (Revised) “Consolidated and Separate Financial Statements”.

4. SEGMENT INFORMATION

Information reported to the key management of the Company, who being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided.

Specifically, the Group's reportable and operating segments under HKFRS 8 are as follows:

Continuing Operations

(i) Sales of beauty equipment
(ii) Sales of beauty products
(iii) Therapy services

Discontinued Operations

(i) Royalty fee income
(ii) Provision of training courses

The Group's reportable segments are strategic business units that operate different activities. They are managed separately because each business unit has different marketing strategies.

	Continuing operations				Discontinued operations			
OPERATING SEGMENT	**Sales of beauty equipment** *HK$'000* **(unaudited)**	**Sales of beauty products** *HK$'000* **(unaudited)**	**Therapy services** *HK$'000* **(unaudited)**	**Segment total** *HK$'000* **(unaudited)**	**Royalty fee income** *HK$'000* **(unaudited)**	**Provision of training courses** *HK$'000* **(unaudited)**	**Segment total** *HK$'000* **(unaudited)**	**Consolidated** *HK$'000* **(unaudited)**
For the six months ended 31 December 2011								
REVENUE								
Revenue from external customers	–	–	–	–	–	–	–	–
RESULTS								
Segment profit (loss) for reportable segment	–	–	–	–	–	–	–	–
Other revenue				–			–	–
Unallocated administrative expenses				(2,015)			–	(2,015)
Finance costs				–			–	–
Loss before tax				(2,015)			–	(2,015)
Income tax expense				–			–	–
Core loss for the period				(2,015)			–	(2,015)
MAJOR NON-CASH ITEMS								
– Impairment loss recognised in respect of intangible assets				(7,488)			–	(7,488)
– Impairment loss recognised in respect of deposits, prepayments and other receivables				(229,445)			–	(229,445)
– Gain on de-consolidation of subsidiaries				155,547			–	155,547
				(83,401)			–	(83,401)

4. SEGMENT INFORMATION *(Continued)*

OPERATING SEGMENT	Continuing operations				Discontinued operations			
	Sales of beauty equipment *HK$'000* (unaudited)	Sales of beauty products *HK$'000* (unaudited)	Therapy services *HK$'000* (unaudited)	Segment total *HK$'000* (unaudited)	Royalty fee income *HK$'000* (unaudited)	Provision of training courses *HK$'000* (unaudited)	Segment total *HK$'000* (unaudited)	Consolidated *HK$'000* (unaudited)
For the six months ended 31 December 2010								
REVENUE								
Revenue from external customers	35,320	484	394	36,198	3,532	500	4,032	40,230
RESULTS								
Segment profit (loss) for reportable segment	9,690	(4,163)	(1,765)	3,762	2,901	411	3,312	7,074
Other revenue				–			–	–
Unallocated administrative expenses				(2,614)			–	(2,614)
Finance costs				(5,248)			–	(5,248)
Loss before tax				(4,100)			3,312	(788)
Income tax expense				(1,093)			–	(1,093)
Core loss for the year				(5,193)			3,312	(1,881)

Revenue reported above represents revenues generated from external customers. There were no inter-segment sales during the period 2011 (2010: Nil).

The accounting policies of the operating segments are the same as the Group's accounting policies.

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

5. TURNOVER

	For the three months ended 31 December		For the six months ended 31 December	
	2011	2010	**2011**	2010
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Continuing operations				
Sales of beauty equipment	**–**	11,000	**–**	35,320
Sales of beauty products	**–**	288	**–**	484
Therapy services	**–**	173	**–**	394
	–	11,461	**–**	36,198
Discontinued operations				
Royalty fee income	**–**	1,100	**–**	3,532
Provision of training courses	**–**	–	**–**	500
	–	1,100	**–**	4,032

6. FINANCE COSTS

	For the three months ended 31 December		For the six months ended 31 December	
	2011	2010	**2011**	2010
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Continuing operations				
Imputed interest on convertible bonds	**–**	2,366	**–**	5,248
	–	2,366	**–**	5,248

7. LOSS BEFORE TAXATION

	For the three months ended 31 December		For the six months ended 31 December	
	2011	2010	**2011**	2010
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Loss for the period from continuing operations before tax has been arrived at after (charging) crediting:				
Staff costs including directors' remunerations	**(810)**	(3,387)	**(1,407)**	(6,334)
Amortisation of intangible assets	**–**	(234)	**–**	(468)
Depreciation of property, plant and equipment	**–**	(178)	**–**	(356)
Impairment loss recognised in respect of Intangible assets	**–**	–	**(7,488)**	–
Impairment loss recognised in respect of deposits, prepayments and other receivable	**489**	–	**(229,445)**	–
Gain on de-consolidation of subsidiaries	**–**	–	**155,547**	–

8. INCOME TAX EXPENSE

(i) No provision for Hong Kong Profits Tax has been made as the Group has no assessable profits in Hong Kong or the estimated assessable profit was wholly absorbed by tax losses brought forward for the six months ended 31 December 2011 (2010: approximately HK$1,093,000).

(ii) No provision for overseas income tax was made as the Company's overseas subsidiaries did not have taxable income for the six months ended 31 December 2011 (2010: Nil).

(iii) The Group had no significant unprovided deferred tax assets and liabilities at 31 December 2011 (2010: Nil).

9. DISCONTINUED OPERATIONS

BSHK is principally engaged in the sales of beauty equipment, sales of beauty products, therapy services, granting of royalty in relation to the sales of beauty products and provision of training courses. Upon de-consolidation of BSHK, the Group has ceased the operations of granting of royalty in relation to the sales of beauty products and provision of training courses. Accordingly, the operations of granting royalty in relation to the sales of beauty products and provision of training courses are presented as discontinued operations in the unaudited condensed consolidation financial statements. The results of the discontinued operations for the three months and six months ended 31 Dec 2011, which have been included in the unaudited consolidated profit or loss, are as follows:

		For the three months ended 31 December		**For the six months ended 31 December**	
		2011	2010	**2011**	2010
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	Note	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Turnover	*5*	**–**	1,100	**–**	4,032
Cost of sales		**–**	–	**–**	–
Gross profit		**–**	1,100	**–**	4,032
Selling and distribution costs		**–**	(211)	**–**	(321)
Administrative expenses		**–**	(203)	**–**	(399)
Profit before tax		**–**	686	**–**	3,312
Income tax expense		**–**	–	**–**	–
Profit for the year		**–**	686	**–**	3,312

For the six months ended 31 December 2011, the discontinuation of the granting of royalty and provision of training course operations did not contribute or pay any cash flows to the Group's operating activities (2010: cash inflows of approximately HK$5,811,000), investing activities (2010: HK$ Nil) and financing activities (2010: HK$ Nil).

10. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss attributable to owners of the Company for the three months ended 31 December 2011 of approximately HK$587,000 (2010: loss attributable to owners of the Company of approximately HK$2,272,000) and loss attributable to owners of the Company for the six months ended 31 December 2011 of approximately HK$83,401,000 (2010: loss attributable to owners of the Company of approximately HK$1,881,000) and the weighted average of 1,312,200,000 shares in issue during the three months ended 31 December 2011 (2010: 692,960,870 shares) and the weighted average of 1,291,276,087 shares in issue during the six months ended 31 December 2011 (2010: 638,015,217 shares).

Diluted loss per share for the three months and six months ended 31 December 2011 were the same as the basic loss per share as there were no diluting event during the periods.

No diluted loss per share for the three months and six months ended 31 December 2010 have been presented as the conversion of all outstanding convertible bonds would result in anti-dilutive effects.

11. INTANGIBLE ASSETS

	(unaudited) *HK$'000* Trademark
Cost	
At 1 July 2010, 30 June 2011 and 31 December 2011	18,702
Accumulated amortisation and impairment	
At 1 July 2010	10,296
Amortisation for the year	936
At 30 June 2011 and 1 July 2011	11,232
Impairment loss recognised	7,488
At 31 December 2011	18,720
Carrying amount	
At 31 December 2011	**–**
At 30 June 2011	**7,488**

Intangible asset represents the trademarks "Blu Spa" used by the Group on its products and therapy services. Such intangible asset is amortised on a straight-line basis over 20 years and its estimated remaining useful life is 8 years at the beginning of the reporting period.

Impairment test of trademark

The Group completed its impairment test for the intangible asset by comparing its recoverable amount to the carrying amount as at 31 December 2011. The recoverable amount of the intangible asset is determined based on value in use calculation of the cash flow projections on the financial estimation. As at 31 December 2011, the Directors are in the opinion that there will be no future cash inflow contributed by the trademark "Blu Spa" to the Group due to the cessation of business operations using "Blu Spa" trademark. As such, the impairment loss of approximately HK$7,488,000 was recognised in the unaudited condensed consolidated statement of comprehensive income for the period ended 31 December 2011.

12. PROPERTY, PLANT AND EQUIPMENT

	(Unaudited) *HK$'000*
Cost	
At 1 July 2010	3,891
Addition	180
At 30 June 2011 and 1 July 2011	4,071
De-consolidation of the Unconsolidated Subsidiaries	(4,071)
Addition	–
At 31 December 2011	–
Accumulated depreciation	
At 1 July 2010	1,215
Charged for the year	718
At 30 June 2011 and 1 July 2011	1,933
De-consolidation of the Unconsolidated Subsidiaries	(1,933)
Charged for the period	–
At 31 December 2011	–
Carrying amounts	
At 31 December 2011	**–**
At 30 June 2011	2,138

13. INVENTORIES

	At 31 December 2011 (Unaudited) *HK$'000*	At 30 June 2011 (Audited) *HK$'000*
Raw materials	**–**	494
Finished goods	**–**	930
Less: Provision for inventories	**–**	(449)
	–	975

Movements in write down of inventories:

	At 31 December 2011 (Unaudited) *HK$'000*	At 30 June 2011 (Audited) *HK$'000*
Balance at the beginning of the year	**(449)**	(459)
De-consolidation of the Unconsolidated Subsidiaries	**449**	–
Written back on write down of inventories	**–**	10
	–	(449)

14. TRADE RECEIVABLES

	At 31 December 2011 (Unaudited) *HK$'000*	At 30 June 2011 (Audited) *HK$'000*
Trade receivables	**–**	120,842
Less: Impairment loss recognised	**–**	(117,684)
	–	3,158

An aged analysis of the trade receivables is as follows:

0 – 60 days	**–**	3,055
61– 120 days	**–**	1
121– 180 days	**–**	–
181– 365 days	**–**	81
Over 365 days	**–**	21
	–	3,158

15. BANK BALANCES AND CASH

	At 31 December 2011 (Unaudited)	At 30 June 2011 (Audited)
	HK$'000	*HK$'000*
Cash at bank and on hand	**161**	1,436

At the end of the reporting period, the cash and bank balances of the Group denominated in CAD amounted to HK$ Nil (2011: approximately HK$9,000).

Bank balances earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

16. ACCRUALS AND OTHER PAYABLES

	At 31 December 2011 (Unaudited)	At 30 June 2011 (Audited)
	HK$'000	*HK$'000*
Accruals	**3,339**	5,786
Other payables	**1,308**	3,977
Amounts due to the Unconsolidated Subsidiaries	**1,998**	–
	6,645	9,763

17. SHARE CAPITAL

	Number of shares	*HK$'000*
Authorised:		
At 1 July 2011 and 31 December 2011	5,000,000,000	500,000
Issued and fully paid:		
At 1 July 2011	1,202,200,000	120,220
Issue on new shares pursuant to the placing agreement dated 27 July 2011	110,000,000	11,000
At 31 December 2011	1,312,200,000	131,220

18. DE-CONSOLIDATION OF SUBSIDIARIES

Save as disclosed in note 3 of the unaudited condensed consolidated financial statements, the Directors have resolved that the Unconsolidated Subsidiaries shall be treated as having been de-consolidated from that of the Group with effect from 1 July 2011.

Details of the net assets (liabilities) of the Unconsolidated Subsidiaries as at 1 July 2011 are set out below:

(a) The BSHK Group

	Total
	HK$'000
Net liabilities de-consolidated:	
Property, plant and equipment	2,138
Inventories	975
Trade receivables	3,158
Deposits, prepayments and other receivables	118,212
Amounts due from former fellow subsidiaries	6,101
Bank balances and cash	66
Amount due to the Company	(253,908)
Deposits received from customers	(4,446)
Accruals and other payables	(5,010)
Amount due to a director	(137)
Amount due to a related party	(385)
Amounts due to related companies	(2,033)
Provision for taxation	(5,594)
	(140,863)
Release of translation reserve upon de-consolidation	3
	(140,860)
Gain on de-consolidation	140,860
Total consideration	–
Net cash outflow arising on de-consolidation:	
Bank balances and cash de-consolidated of	(66)

18. DE-CONSOLIDATION OF SUBSIDIARIES *(Continued)*

(b) Clapton Holdings Limited

	Total
	HK$'000
Net liabilities de-consolidated:	
Amount due from a fellow subsidiary	363
Amount due to the Company	(6,382)
Amount due to BSHK	(5,978)
	(11,997)
Release of translation reserve upon de-consolidation	–
	(11,997)
Gain on de-consolidation	11,997
Total consideration	–
Net cash outflow arising on de-consolidation:	
Bank balances and cash de-consolidated of	–

(c) Blu Spa Management Services Limited

	Total
	HK$'000
Net liabilities de-consolidated:	
Amount due from BSHK	446
Amount due to the Company	(501)
Accruals and other payables	(18)
	(73)
Release of translation reserve upon de-consolidation	1
	(72)
Gain on de-consolidation	72
Total consideration	–
Net cash outflow arising on de-consolidation:	
Bank balances and cash de-consolidated of	–

18. DE-CONSOLIDATION OF SUBSIDIARIES *(Continued)*

(d) Blu Spa International Limited

	Total
	HK$'000
Net liabilities de-consolidated of:	
Amount due to BSHK	(2,600)
Accruals and other payables	(18)
	(2,618)
Release of translation reserve upon de-consolidation	–
	(2,618)
Gain on de-consolidation	2,618
Total consideration	–
Net cash outflow arising on de-consolidation:	
Bank balances and cash de-consolidated of	–

19. OPERATING LEASE COMMITMENT

At the end of the reporting period, the Group was committed to make the following future minimum lease payments in respect of office properties with lease terms under non-cancellable operating leases which are payable as follows:

	At 31 December 2011 (Unaudited)	At 30 June 2011 (Audited)
	HK$'000	*HK$'000*
Within one year	**896**	4,444
In the second to fifth years, inclusive	**42**	3,664
	938	8,108

20. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed in elsewhere to the unaudited condensed consolidated financial statements, the Group had the following material transactions with related parties during the period:

		(Unaudited) Six months ended 31 December	
Name of party	**Nature of transactions**	**2011**	2010
		HK$'000	*HK$'000*
During the period, the Group entered into the following transactions with related parties:			
Garrick International Limited ("Garrick") *(Note 1)*	Purchases of products	**–**	21

Note:

(1) Ms. Keung Wai Fun, Samantha, the former chief executive officer of the Company, is the controlling shareholder and director of Garrick. The Group purchased products at normal commercial terms from Garrick during the period ended 31 December 2010.

Ms. Keung Wai Fun, Samantha resigned on 7 March 2012.

Compensation for key management personnel

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

	(Unaudited) For the six months ended 31 December	
	2011	2010
	HK$'000	*HK$'000*
Short-term employee benefits	**1,407**	1,758

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

At the request of the Company, trading in the shares of the Company has been suspended since 30 September 2011 due to the delay in publication of the Group's annual results announcement for the year ended 30 June 2011.

In view of the insufficient of general working capital, the Company had entered into two short-term loan agreements on normal commercial terms with Koffman Investment Limited ("Koffman"), of which Mr. Yu Shu Kuen, the chairman and an executive Director, is the ultimate beneficial owner, in the principal of HK$10.0 million and HK$20.0 million on 8 February 2012 and 27 March 2012 respectively. All the outstanding borrowings and interest expenses accrued thereon for the loan agreement entered into on 8 February 2012 had been repaid on 7 May 2012. The loan facility was increased to a principal amount of HK$50.0 million in accordance with the supplementary loan agreement dated 26 June 2012. The repayment date of all the outstanding borrowings for the loan agreement entered into on 27 March 2012 has been extended from 27 June 2012 to 7 December 2012, by entering into four supplementary loan agreements dated 26 June 2012, 26 September 2012, 26 October 2012 and 26 November 2012 respectively.

On 7 March 2012, the former auditors of the Group, HLM & Co. ("HLM"), tendered their resignation as the independent auditors of the Group. In view of the reasons for resignation as set out in the resignation letter issued by HLM to the Board, the Board had resolved on 7 March 2012 to establish a special investigation committee (the "Special Investigation Committee") for the purposes of, (i) investigating the issues raised by HLM in their resignation letter; (ii) reviewing the internal control procedures and corporate governance policies of the Group; and (iii) making recommendations to the Board on appropriate actions to be taken.

On 8 June 2012, the Company published the final results announcement for the year ended 30 June 2011 in which a disclaimer opinion was issued by the independent auditors of the Group, HLB Hodgson Impey Cheng ("HLB"), in the independent auditors' report.

On 13 July 2012, the Stock Exchange issued a letter to the Company setting out the following conditions which must be satisfied by the Company before the Stock Exchange considers any application for trading resumption:

(a) engage an independent professional adviser acceptable to the Stock Exchange to conduct a forensic investigation to address all the issues raised in the HLM's resignation letter and the audit qualifications made by HLB in its independent auditors' report;

(b) inform the market of all material information (including the findings of the forensic investigation of (a) above) that is necessary to appraise the Group's position;

(c) publish all outstanding financial results and reports, and address any other concerns raised by HLB; and

(d) demonstrate that the Group has adequate financial reporting procedures and internal control systems to meet the obligations under the GEM Listing Rules.

The Company should also comply with the GEM Listing Rules and all applicable laws and regulations before resumption of trading.

The Stock Exchange may modify any of the above conditions and/or impose further conditions if the situation changes.

On 16 July 2012, the Company appointed RSM Nelson Wheeler Corporate Advisory Limited ("RSM") as the independent forensic accountants to address the conditions set out by the Stock Exchange. On 28 September 2012, a forensic report (the "Forensic Report") was issued by RSM and the Company has submitted a copy of the Forensic Report to the Stock Exchange on the same day. On 10 October 2012, the Special Investigation Committee has submitted the Forensic Report to the Board. Having considered the findings of the Forensic Report and complete documentary information and reasonable explanation in respect of the transactions asserted to have been undertaken by certain subsidiaries could not be obtained, the Directors have not been able to satisfy themselves regarding the accounting treatments in respect of those transactions for the six months ended 31 December 2011. As such, the results, assets and liabilities of these subsidiaries have not been included in the unaudited condensed consolidated financial statements for the six months ended 31 December 2011.

On 13 July 2012, EDS Distribution Limited ("EDS Distribution"), a wholly-owned subsidiary of the Company, had entered into an exclusive distribution agreement (the "Exclusive Distribution Agreement") with Montaigne Limited ("Montaigne"). Pursuant to the Exclusive Distribution Agreement, Montaigne had granted exclusive distributorship of "Evidens de Beauté" products in Hong Kong to EDS Distribution for an initial term of 3 years which shall be renewed automatically thereafter for a period of 1 year unless terminated by either party.

On 5 October 2012, the Group opened a spa of around 2,231 sq. ft. with the brand "Le Spa Evidens" in Causeway Bay, Hong Kong in order to promote and publicise "Evidens de Beauté" products and generate further income for the Group.

Financial Review

Due to the de-consolidation of certain subsidiaries, the financial statements of Clapton Holdings Limited, Blu Spa International Limited, Blu Spa Management Services Limited, Blu Spa (Hong Kong) Limited and six of its wholly-owned subsidiaries, including Winner Century (Hong Kong) Limited, Star Beauty Group Holdings Limited, Star Beauty Canada Inc., Max-Gold Pacific Limited, Castletop Assets Limited, and Profit Full Global Limited, have not been included in the unaudited condensed consolidated financial information of the Group. As such, for the six months ended 31 December 2011, the Group did not have any turnover (2010: HK$40.2 million).

The consolidated loss attributable to shareholders of the Company amounted to approximately HK$83.4 million (2010: HK$1.9 million) for the six months ended 31 December 2011. Such loss was mainly attributed to the combined effect of the impairment loss recognised in respect of intangible assets, impairment loss recognised in respect of deposits, prepayments and other receivables and gain on deconsolidation of subsidiaries.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2011, the Group had total assets of HK$49.1 million (30 June 2011: HK$134.2 million), including cash and bank balances of approximately HK$0.2 million (30 June 2011: HK$1.4 million).

During the period under review, the Group financed its operation with internally generated cash flows and the proceeds from the issuance of new shares.

CAPITAL STRUCTURE

(a) Placing of new shares

On 5 August 2011, the Company completed the placing in an aggregate of 110,000,000 new shares under general mandate at a placing price of HK$0.15 per placing share. The net proceeds of approximately HK$16.0 million from the placing had been utilized for general working capital.

(b) As at 31 December 2011, the Group did not have any borrowing (30 June 2011: HK$2.0 million).

GEARING RATIO

The gearing ratio, expressed as percentage of total liabilities over total assets, was 13.5% (30 June 2011: 18.2%).

CHARGE ON THE GROUP'S ASSETS

As at 31 December 2011, the Group did not have any charge on its assets.

FOREIGN EXCHANGE RISK

The Group has not used any foreign currency derivative instruments to hedge its exposure to foreign exchange risk. However, the management monitors closely the exposures and will consider hedging the exposures should the need arise.

COMMITMENTS

As at 31 December 2011, the Group had operating lease commitments of HK$0.9 million (30 June 2011: HK$8.1 million).

CONTINGENT LIABILITIES

As at 31 December 2011, the Group had no contingent liabilities (30 June 2011: Nil).

EMPLOYEES

As at 31 December 2011, the Group had 69 employees. Their remuneration, promotion and salary review were assessed based on job responsibilities, work performance, professional experiences and the prevailing industry practices. The employees in Hong Kong joined the mandatory provident fund scheme. Other benefits include share options granted or to be granted under the share option scheme.

SIGNIFICANT INVESTMENT

The Group did not enter into any new significant investment during the period ended 31 December 2011.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group did not make any material acquisitions and disposal of subsidiaries and affiliated companies for the period ended 31 December 2011.

FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

The Group does not have any concrete plan for material investments or capital assets for the coming quarters.

Future Plans

As announced by the Company on 26 October 2012, the Group intended to expand the distribution business for "Evidens de Beauté" products to mainland China and Taiwan. The Group is planning to establish a subsidiary in each of mainland China and Taiwan for the purposes of registering and distributing "Evidens de Beauté" products in these territories. Such expansion plan is under negotiations with the brand owner of "Evidens de Beauté" products.

LITIGATION

On 25 September 2012, a writ of summons (the "Writ") was issued in the High Court of Hong Kong by BSHK, an unconsolidated subsidiary of the Company, as the plaintiff (the "Plaintiff") claiming against Mr. Shum Yeung as the defendant (the "Defendant") for, inter alia, (i) the repayment of an outstanding sum due and owing from the Defendant under a deed of termination dated 4 April 2012 (the "Deed of Termination") and four repayment extension agreements dated 4 July 2012, 24 July 2012, 3 August 2012 and 21 August 2012 respectively (collectively, the "Repayment Extension Agreements") entered into between the Plaintiff and the Defendant; and (ii) the breach of the Deed of Termination and/or the Repayment Extension Agreements.

The Plaintiff claims (the "Claims") against the Defendant for the following relief:

(a) the outstanding sum of HK$45,000,000.00 (the "Outstanding Sum");

(b) the contractual interest accrued and due on the Outstanding Sum;

(c) the interest; and

(d) the costs.

On 26 October 2012, the Company announced that the Plaintiff was in the process of applying for summary judgment against the Defendant. The hearing has been fixed for 30 January 2013.

On 1 November 2012, the Plaintiff and the Defendant entered into a deed of settlement (the "Deed of Settlement") for the purpose of settling the Claims under the Writ. Pursuant to the Deed of Settlement, in consideration of the Plaintiff and the Defendant agreeing to settle the Claims as follows:

(i) the Defendant shall pay the following amounts by way of cashier's order or solicitors' cheque to the Plaintiff on the following specified dates:

    (a) HK$4,050,000.00 payable to the Plaintiff on 13 November 2012;

    (b) HK$1,597,808.20 payable to the Plaintiff on 13 November 2012;

    (c) HK$36,450,000.00 payable to the Plaintiff on 30 November 2012; and

(ii) upon payment of the entirety of the sums by the Defendant on the specified dates as set out above, the Plaintiff shall by way of court order withdraw the legal proceedings and the summary judgment application under the Writ and the statutory demand against the Defendant with no order as to costs.

The Plaintiff had received an aggregate sum of HK$5,647,808.20 on 13 November 2012 from the Defendant. On 30 November 2012, the Defendant defaulted to pay HK$36,450,000.00 as stated in the Deed of Settlement and still defaults to pay such amount as at the date of this report. The Plaintiff will continue to proceed with the court action to recover the outstanding balance of the Claims.

SHARE OPTION SCHEME

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.

As at 31 December 2011, no share option was granted under the Share Option Scheme adopted on 30 January 2002.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As at 31 December 2011, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have taken under such provisions of the SFO), or which were recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or otherwise were notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules, were as follows:

Long positions in the ordinary shares of HK$0.1 each of the Company

Name	Nature of interests	Number of shares	Approximate percentage of shareholding *(Note 4)*
Executive Directors			
Mr. Wang Xiaofei	Beneficial owner	230,400,000	17.56%
Mr. Ji He Qun ("Mr. Ji")	Beneficial owner	13,610,000	1.04%
	Interest of spouse	1,760,000 *(Note 1)*	0.13%
Ms. Chan Choi Har, Ivy ("Ms. Chan")	Beneficial owner	2,000,000	0.15%
	Corporate interest	11,065,787 *(Note 2)*	0.85%
Chief Executive Officer			
Ms. Keung Wai Fun, Samantha ("Ms. Keung")	Corporate interest	682,200 *(Note 3)*	0.05%

Notes:

1. These shares were held by Ms. Sun Guang Hong (the spouse of Mr. Ji). By virtue of the SFO, Mr. Ji is deemed to be interested in the shares held by his spouse in the Company.

2. These shares were held by XO-Holdings Limited ("XO-Holdings"). Ms. Chan owns 65% interests in XO-Holdings. By virtue of the SFO, Ms. Chan is deemed to be interested in the shares held by XO-Holdings.

3. These shares were held by Queensbury Global Limited ("Queensbury"). Million Fortune Group Limited ("Million Fortune") owns 88.38% interests in Queensbury. Ms. Keung owns 87% interests in Million Fortune. By virtue of the SFO, Ms. Keung is deemed to be interested in the shares held by Queensbury.

4. The percentage is calculated on the basis of 1,312,200,000 shares of the Company in issue as at 31 December 2011.

Save as disclosed above, as at 31 December 2011, none of the Directors or the chief executive of the Company had any interests or short positions 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 Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO); or were required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein, or as otherwise were required to be notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2011, so far as is known to the Directors and the chief executive of the Company, the interests and short positions of the persons or corporations (other than the Directors and the chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO; or who was directly or indirectly, to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other members of the Group, were as follows:

Long position in ordinary shares of HK$0.1 each of the Company

Name of shareholder	**Nature of interests**	**Number of shares**	**Approximate percentage of shareholding** *(Note 2)*
Hong Kong Wintek International Co., Limited ("Wintek")	Beneficial owner	106,580,000	8.12%
Mr. Du Juanhong ("Mr. Du")	Corporate interest	106,580,000 *(Note 1)*	8.12%

Notes:

1. These shares were held by Wintek which was wholly-owned by Mr. Du. By virtue of the SFO, Mr. Du is deemed to be interested in shares held by Wintek.

2. The percentage is calculated on the basis of 1,312,200,000 shares of the Company in issue as at 31 December 2011.

Save as disclosed above, as at 31 December 2011, so far is known to the Directors and the chief executive of the Company, and based on the public records filed on the website of the Stock Exchange and records kept by the Company, no other person or corporation (other than the Directors and chief executive of the Company) has interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, or, were directly or indirectly, interest in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other members of the Group.

OTHER INTERESTS DISCLOSEABLE UNDER THE SFO

Save as disclosed above, so far as is known to the Directors, there is no other person who has an interest or short position in the shares and underlying shares that is discloseable under Section 336 of the SFO.

CODE ON CORPORATE GOVERNANCE PRACTICES

During the period under review and as at the date of this report, the Company has complied with the code provisions in the Corporate Governance Code and Corporate Governance Report (the "CG Code and Report") as set out in Appendix 15 to the GEM Listing Rules.

Chairman and Chief Executive

Code provision A.2.1 of the CG Code and Report stipulates that the role of chairman and chief executive should be separate and should not be performed by the same individual.

Ms. Keung Wai Fun, Samantha resigned as the chief executive officer of the Company with effect from 7 March 2012.

On 16 August 2012, Mr. Yu Shu Kuen ("Mr. Yu"), an executive Director and managing Director, was appointed as the chairman of the Board. The Board considers that vesting the role of both the chairman of the Board and the managing Director in Mr. Yu provides the Company with consistent leadership, facilitates effective and efficient planning and implementation of business decisions and strategies. The Board believes that this structure will not impair the balance of power and authority between the Board and the management of the Company.

Appointments, re-election and removal

Code provision A.4.1 of the CG Code and Report stipulates that non-executive Directors should be appointed for a specific term, subject to re-election.

During the period under review, the term of office for the then non-executive Directors was subject to retirement and by rotation and is eligible for re-election in accordance with the provisions of the Company's articles of association. At each annual general meeting, one-third of the Directors of the Company for the time being, (or if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation. As such, the Company considered that such provisions are sufficient to meet the objective of this code provision.

Currently, all non-executive Directors are appointed for a term of two years and subject to re-election.

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. Having made specific enquiry of all the Directors, save as Mr. Ji He Qun, Mr. Chan Shun Kuen, Eric, Ms. Liu Xin, Mr. Chan Sze Hon, Mr. Cheng Hai, Mr. Lam Wai Pong, Ms. Liu Jiang, Mr. Gu Da Xin and Ms. Zhao Jing, all Directors have confirmed that they have complied with such code of conduct and the required standard of dealings on Directors' securities transactions. In addition, based on the information that is publicly available to the Company, the Company was not aware of any non-compliance with the required standard of dealings and the code of conduct regarding securities transactions by Directors.

COMPETING INTERESTS

As at 31 December 2011, none of the Directors, substantial shareholders of the Company nor any of their respective associates (as defined in the GEM Listing Rules) has any interest in a business which causes or may cause any significant competition with the business of the Group.

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") with written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules. As at 31 December 2011, Mr. Chan Sze Hon (resigned on 10 January 2012), Mr. Lam Wai Pong (resigned on 31 January 2012) and Mr. Cheng Hai (removed on 8 May 2012) were the members of the Audit Committee. As at the date of this report, the Audit Committee comprises three independent non-executive Directors, namely, Mr. Tam B Ray Billy, Mr. Chu Kin Wang Peleus and Mr. Tse Joseph. The Audit Committee has reviewed the unaudited condensed consolidated interim results for the six months ended 31 December 2011 and has provided advice and comments thereon.

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

During the period under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

By order of the Board
China AU Group Holdings Limited
Yu Shu Kuen
Chairman

Hong Kong, 6 December 2012

As at the date of this report, the Board comprises four executive Directors, namely Mr. Yu Shu Kuen, Mr. Wang Xiaofei (with Mr. Lee Chan Wah as alternate), Mr. Wang Shangzhong and Mr. Lee Chan Wah; one non-executive Director, namely Mr. Du Juanhong; and three independent non-executive Directors, namely Mr. Tam B Ray Billy, Mr. Chu Kin Wang Peleus and Mr. Tse Joseph.