CHINA AU GROUP HOLDINGS LIMITED

中 國 金 豐 集 團 控 股 有 限 公 司*

(to be renamed as EDS Wellness Holdings Limited)

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8176)

INTERIM REPORT
FOR THE SIX MONTHS ENDED
31 DECEMBER 2012

* *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 established 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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors (the "Directors") of China AU Group Holdings Limited (the "Company") collectively and individually accept 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 enquires, 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.

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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 final 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 in normal commercial terms with Koffman Investment Limited ("Koffman"), of which Mr. Yu Shu Kuen, the Chairman, executive Director and managing Director, is the ultimate beneficial owner of Koffman, in the principal of HK$10.0 million and HK$20.0 million on 8 February 2012 (the "First Loan Agreement") and 27 March 2012 (the "Second Loan Agreement") respectively. All the outstanding borrowings and interest expenses accrued for the First Loan Agreement had been repaid on 7 May 2012. The loan facility of the Second Loan Agreement 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 Second Loan Agreement had been extended from 27 June 2012 to 30 April 2013, by entering of ten supplementary loan agreements dated 26 June 2012, 26 September 2012, 26 October 2012, 26 November 2012, 7 December 2012, 31 December 2012, 15 January 2013, 31 January 2013, 28 February 2013 and 2 April 2013 respectively.

On 8 June 2012, the Company approved the annual results announcement for the year ended 30 June 2011, in which a disclaimer of opinion was issued by the independent auditors of the Group 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 former auditors' resignation letter and the audit qualifications made by the current auditors in its independent auditors' report for the year ended 30 June 2011;

(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 current 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.

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

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 investigation report (the "Forensic Investigation Report") was issued by RSM and the Company has submitted a copy of such report to the Stock

Exchange on the even date. On 10 October 2012, a copy of the Forensic Investigation Report was submitted to the Board by the special investigation committee formed on 7 March 2012. A summary of the major findings of the Forensic Investigation Report was set out in an announcement dated 9 April 2013. Having considered the findings of the Forensic Investigation 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 year ended 30 June 2012. As such, the results, assets and liabilities of these subsidiaries (the "Unconsolidated Subsidiaries") have not been included in the consolidated financial statements for the year ended 30 June 2012 (the "De-consolidation"). Similarly, the Unconsolidated Subsidiaries have not been included in the audited condensed consolidated financial statements for the six months ended 31 December 2012.

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,

During the period under review, the management continued to streamline its operations. Up to the date of this report, the Group terminated the operations of 3 spa centres located at Central, Cheung Sha Wan and Sheung Wan and a hair rejuvenating centre located at Central that brings to a total of 9 retail shops or spa centres since February 2012.

Financial Review

Due to De-consolidation, the financial statements of the Unconsolidated Subsidiaries have not been included in the interim financial information of the Group for the six months ended 31 December 2012.

During the period under review, the Group recorded a turnover of approximately HK$4.4 million of which approximately HK$1.8 million, approximately HK$1.1 million and approximately HK$1.5 million were generated from the sales of beauty products, sales of beauty equipment and provision of therapy services respectively. The gross loss of approximately HK$2.4 million was mainly attributed to the direct costs of salaries and rental expenses incurred in the preliminary development stage of the new business and the extra sales discounts offered for the sales of beauty products under the brand name "Blu Spa".

The selling and distribution costs of approximately HK$0.7 million was mainly attributed to the subscription fee for advertising with magazines and expenses for the grand opening of Le Spa Evidens.

The administrative expenses of approximately HK$8.9 million mainly comprised of salaries and directors' remuneration of approximately HK$4.0 million; legal and professional fees of approximately HK$1.4 million; rent and rates of approximately HK$0.8 million; overseas travelling expenses of approximately HK$0.4 million and depreciation of approximately HK$0.6 million.

The finance costs of approximately HK$1.5 million was mainly attributed to the loan interest expenses paid to Koffman during the period under review.

The consolidated loss attributable to owners of the Company amounted to approximately HK$13.6 million for the six months ended 31 December 2012 (2011: HK$83.4 million). The improvement of the results was mainly contributed by the non-recurrence of once off impairment loss recognised in respect of deposits, prepayments and other receivables recorded in the corresponding period last year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2012, the Group had total assets of approximately HK$50.0 million (30 June 2012: HK$57.7 million), including cash and bank balances of approximately HK$0.3 million (30 June 2012: HK$0.3 million).

During the period under review, the Group financed its operation with internally generated cash flows and borrowing from Koffman.

CAPITAL STRUCTURE

As at 31 December 2012, the total borrowings of the Group amounted to approximately HK$31.4 million (30 June 2012: HK$19.6 million) representing the borrowing from Koffman of which is unsecured, at an interest rate of 12% per annum and repayable within one year.

GEARING RATIO

The gearing ratio, expressed as percentage of total borrowings to total assets, was 62.9% (30 June 2012: 34.0%). The deterioration in gearing ratio was mainly attributed to the increase in borrowing from Koffman during the period under review.

CHARGE ON THE GROUP'S ASSETS

As at 31 December 2012, 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 arises.

COMMITMENTS

As at 31 December 2012, the Group had operating lease commitments of approximately HK$6.2 million (30 June 2012: 7.4 million).

CONTINGENT LIABILITIES

As at 31 December 2012, the Group had no contingent liabilities (30 June 2012: Nil).

EMPLOYEES

As at 31 December 2012, the Group had 41 employees. Their remuneration, promotion and salary review are 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.

SIGNIFICANT INVESTMENT

The Group did not enter into any new significant investment during the six months ended 31 December 2012.

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 six months ended 31 December 2012.

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

The Group is exploring new business opportunities and furthering its business development. As announced by the Company on 26 October 2012, the Group intends 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. The incorporation of a subsidiary in Xian, mainland China is expected to be completed in May 2013. The management expects that full registration of all the products will be completed by end of March 2014. In addition, the Group has the intention to expand the distribution business for "Evidens de Beauté" products to Macau. Such expansion plan is under negotiations with the brand owner of "Evidens de Beauté" products.

Furthermore, the Group is actively expanding the distribution channels of "Evidens de Beauté" products and publicising this brand in Hong Kong, including:

(i) the Group is supplying "Evidens de Beauté" products to one of the biggest worldwide on line retail shop selling well known skin care & cosmetics brand;

(ii) the Group is discussing with a flight company to arrange for an inflight staff sales event;

(iii) the Group is liaising with a couple of renown hotel groups in relation to the supply of the "Evidens de Beauté" products and "Le Spa Evidens" treatments to the guests of their hotel in Hong Kong;

(iv) the Group will renovate the store at World Trade Centre to transform it into a "Evidens de Beauté" point of sale. The renovated store is expected to open in end of April 2013;

(v) the Group organized a 2 days in house event on 19 March 2013 and 20 March 2013 inviting 40 guests to come along to introduce the brand "Evidens de Beauté" as well as the type of services and treatments provided at the spa. The Group is aiming to throw out similar event per quarter to bring the brand awareness;

(vi) the Group is planning to organize a 1 day press event on 20th May 2013 inviting 40 beauty editors and 30 special guests to meet with Mr. Charles-Edouard Barthes, the founder of the "Evidens de Beauté" group, as one of the promotion activities to bring the brand awareness and enhance the product image;

(vii) the Group will cooperate with Occasions PR & Marketing Limited ("Occasions") for "Evidens de Beauté" to be the only title skincare sponsor for the 25th anniversary celebration event of Occasions hosted by Ms. Pansy Ho and Ms. Yvette Yuen together with the Hong Kong Cancer Fund to attract press or media coverage and promote the awareness of the brand "Evidens de Beauté";

(viii) the Group intends to open an image flagship store in one of the prestigious and high traffic shopping mall in Hong Kong before the end of the first quarter of 2014; and

(ix) the management is considering the reposition and repackaging of the products under the trademark "Blu Spa" to create a balanced product mix in order to penetrate into different market segments and enlarge the customer base.

As a conclusion, the management has spent enormous resources to address the conditions as set out in the letter issued by the Stock Exchange on 13 July 2012, including the engagement of independent professionals to conduct forensic investigation and review of the Group's internal control system and the preparation of all outstanding financial results and reports. In the coming quarters, the management shall allocate more resources for the Group's business expansion. In the long run, the Board will strive to resume trading in the shares of the Company on the Stock Exchange.

LITIGATION

On 25 September 2012, a writ of summons (the "Writ") was issued in the High Court of Hong Kong by Blu Spa (Hong Kong) Limited ("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 5 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 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 Plaintiff was in the process of applying for summary judgment against the Defendant. The hearing had been fixed for 30 January 2013 (the "Hearing").

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; and

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

(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.

On 21 December 2012, the Company announced that the Plaintiff received an aggregate sum of HK$5,647,808.20 from the Defendant. In addition, the Plaintiff agreed to further extend the repayment date of HK$36,450,000 and 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$838,849.32, being the accrued interest from 1 December 2012 to 28 December 2012 (both day inclusive), shall be payable to the Plaintiff on 28 December 2012;

(b) HK$90,000.00, being the legal costs in relation to the Deed of Settlement, shall be payable to the Plaintiff on 28 December 2012; and

(c) RMB29,571,885.00, equivalent to approximately HK$36,450,000.00 (at the exchange rate of 0.8113 as quoted from The People's Bank of China as at 20 December 2012), being the outstanding principal, shall be payable to the receiving agent appointed by the Plaintiff, namely Mr. Yu Shu Kuen, in the mainland China on 28 December 2012.

On 2 January 2013, the Plaintiff received a sum of HK$928,726.00, being the accrued interest from 1 December 2012 to 31 December 2012.

On 7 January 2013, the Plaintiff agreed to accept the proposal from the Defendant to further extend the repayment date of HK$36,450,000.00 and 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$479,342.47, being the accrued interest from 1 January 2013 to 16 January 2013, shall be payable to the Plaintiff on 16 January 2013;

(b) The outstanding principal of HK$36,450,000.00 in its equivalent amount of Renminbi shall be paid to the receiving agent appointed by the Plaintiff, namely Mr. Yu Shu Kuen, in the mainland China on 29 January 2013; and

(c) HK$120,000.00, being the legal costs in relation to the Deed of Settlement, shall be payable to the Plaintiff on 29 January 2013.

The Plaintiff received a sum of HK$479,342.47 on 16 January 2013.

On 29 January 2013, the Plaintiff and the Company entered into the deed of assignment (the "Deed of Assignment") pursuant to which the Plaintiff agreed to assign and transfer to the Company all of its rights, title, interest and obligation in and to the Deed of Termination and Repayment Extension Agreements (the "Debt Documents"), (as well as all the fruits, benefits, rights, advantages, judgement sums and interests of and/or arising from the legal proceedings represented by the Writ, if any) in the consideration of HK$36,450,000.00 to be paid by the Company to the Plaintiff and the Company agreed to undertake to perform in accordance with the terms of the Debt Documents all remaining obligations and duties of the Plaintiff with immediate effect.

On 29 January 2013, the Plaintiff, the Defendant and the Company entered into the second deed of settlement (the "Second Deed of Settlement") pursuant to which the Plaintiff shall pay the Company the following amounts by way of cashier's order or solicitors' cheque on or before the following specified dates:

(a) HK$1,822,500.00, being 5% of the outstanding principal sum of HK$36,450,000.00 (the "Outstanding Principal Sum") payable on or before 29 January 2013;

(b) HK$389,465.70, being the daily interest accruing for January 2013 (from 17 January 2013 to 29 January 2013) payable on or before 29 January 2013;

(c) HK$1,736,118.49, being the additional daily interest accruing on the new principal balance of HK$34,627,500.00 (the "New Balance") (for the period from 30 January 2013 to 31 March 2013) payable on or before 29 January 2013;

(d) HK$120,000.00, being part contribution to the legal costs of the Plaintiff payable on or before 29 January 2013; and

(e) HK$34,627,500.00, being the New Balance payable on or before 31 March 2013.

Upon execution of the Second Deed of Settlement, a consent summons signed by the respective solicitors for the Plaintiff and the Defendant had been filed with the High Court asking for an order to adjourn the Hearing with liberty to restore.

Upon the payment of the entirety the sums on specified dates as set out above, the Plaintiff and/or the Company shall withdraw the legal proceedings against the Defendant.

On 29 January 2013, the Company received an aggregate sum of HK$4,068,084.19.

On 31 March 2013, the Defendant defaulted to pay the HK$34,627,500.00 as stated in the Second Deed of Settlement and still defaults to pay such amount as at the date of this report. The Company shall endeavour to recover such outstanding principal amount and consider to serve a statutory demand on the Defendant and make an application to the court for its substitution as the plaintiff in the court case.

EVENTS AFTER THE REPORTING PERIOD

(a) As disclosed in the Company's circular dated 24 January 2013 (the "Circular"), the Board proposed to put forward to the shareholders of the Company the following proposals for approval at the forthcoming extraordinary general meeting to be held on 28 February 2013 (the "EGM"):

(i) Creation of contributed surplus account and cancellation of share premium account

The Directors proposed to create a contributed surplus account of the Company and the share premium account of the Company will be cancelled. The credits arising from the cancellation of the share premium account will be transferred to the newly created contributed surplus account of the Company within the meaning of the Companies Act 1981 of the Bermuda effective upon the change of domicile. Details of such proposal were disclosed in the Circular. The proposal was approved at the EGM. As at the date of this report, the creation of contributed surplus account and cancellation of share premium account has not yet been completed.

(ii) Change of domicile

The Directors proposed to change the domicile of the Company from the Cayman Islands to Bermuda by way of de-registration in the Cayman Islands and continuation as an exempted company under the laws of Bermuda and to adopt a new memorandum of continuance and Bye-laws in compliance with Bermuda laws to replace the existing memorandum and articles of association of the Company (the "Change of Domicile"). Details of the change of domicile and adoption of new memorandum and of continuance and Bye-laws were set out in the Circular. The proposal was approved at the EGM. As at the date of this report, the Change of Domicile has not yet been completed.

(iii) Capital reorganisation

After the Change of Domicile, the Directors proposed to reorganise the capital of the Company, which involves the capital reduction and the capital consolidation (the "Capital Reorganisation"). Details of the Capital Reorganisation were set out in the Circular. The Capital Reorganisation was approved at the EGM. As at the date of this report, the Capital Reorganisation has not yet been completed.

(iv) Change of company name

The Board proposed to change the name of the Company from "China AU Group Holdings Limited" to "EDS Wellness Holdings Limited" and the existing Chinese name of the Company being "中國金豐集團控股有限公司" (which was adopted for identification purpose) will no longer be adopted, subject to the conditions as set out in the Circular being fulfilled. Details of such change were set out in the Circular. The change of company name was approved at the EGM. As at the date of this report, the change of company name has not yet been completed.

(b) As disclosed in the Company's announcement dated 21 March 2013 (the "Announcement"), the Company entered into the following transactions:

(i) Issue of convertible bonds

The Company and New Cove Limited (the "Subscriber"), an indirect wholly-owned subsidiary of Eternity Investment Limited (the "Subscriber Holding") of which its issue shares are listed on the Main Board of the Stock Exchange (Stock Code: 764), entered into a subscription agreement (the "Subscription Agreement") in respect of the issue of convertible bonds in the principal amount of HK$40 million. Details of such transaction were disclosed in the Announcement. The issue of the convertible bonds and the conversion shares to be allotted and issued upon exercise of the conversion rights attaching to the convertible bonds will be subject to a specific mandate to be approved by the independent shareholders at the forthcoming extraordinary general meeting by way of poll.

(ii) Application for Whitewash Waiver by the subscriber

Assuming the Capital Reorganisation takes effect, the Subscriber will be interested in approximately 75.30% of the issued share capital of the Company as enlarged by the allotment and issue of all the conversion shares, immediately upon the full exercise of the conversion rights attaching to the convertible bonds. Under Rule 26.1 of the Takeovers Code, the Subscriber and the parties acting in concert with it are required to make a mandatory general offer to the shareholders for all the issued shares unless the Whitewash Waiver is obtained. In this regards, the Subscriber will make an application to the Executive for the Whitewash Waiver in respect of the subscription and the exercise of the conversion rights attaching to the convertible bonds subject to approval by the independent shareholders in respect of the subscription and Whitewash Waiver at the forthcoming extraordinary general meeting by way of poll.

(iii) Loan agreement

The Company and Hong Kong Builders Finance Limited (the "Lender"), an indirect wholly-owned subsidiary of the Subscriber Holding, entered into a loan agreement (the "Loan Agreement"), pursuant to which, the Lender has conditionally agreed to grant an unsecured loan in the principal amount of HK$40 million to the Company for a term of 3 years from the date of drawdown. Details of the Loan Agreement were disclosed in the Announcement. The Loan Agreement will be conditional upon the completion of the Subscription Agreement. As such, the Loan Agreement will be subject to the independent shareholders' approval at the forthcoming extraordinary general meeting by way of poll.

A circular containing, among other matters, further information on the Subscription Agreement and the transactions contemplated thereunder; the Whitewash Waiver; and the Loan Agreement and the transactions contemplated thereunder together with the recommendation of the independent board committee to the independent shareholders, a letter advice from the independent financial adviser to the independent board committee and the independent shareholders in relation to these transactions and a notice of extraordinary general meeting will be despatched to the shareholders in compliance with Rule 8.2 of the Takeovers Code. As at the date of this report, the circular has not yet been despatched.

(c) As disclosed in the Company's announcement dated 19 February 2013, the sole director of BSHK decided to voluntarily wind-up BSHK. The Directors are of the view that the winding-up of BSHK will not have any material adverse financial effect on the Group. The resolution for the voluntary winding-up of BSHK was subsequently passed by its sole shareholder on 26 February 2013. In addition, Mr. Osman Mohammed Arab and Mr. Wong Kwok Keung of RSM Nelson Wheeler Corporate Advisory Limited were appointed as joint and several liquidators for the purpose of the winding-up of BSHK in the creditors' meeting held on 26 February 2013.

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INDEPENDENT AUDITORS' REPORT
TO THE BOARD OF DIRECTORS OF
CHINA AU GROUP HOLDINGS LIMITED
(to be renamed as EDS Wellness Holdings Limited)
(Incorporated in the Cayman Islands with limited liability)

We were engaged to audit the interim financial information set out on pages 16 to 39, which comprise the condensed consolidated statement of financial position of China AU Group Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") as of 31 December 2012, and the related condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six months period then ended and other explanatory notes. The Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standards 34 "Interim Financial Reporting" ("**HKAS 34**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKIPCA**").

DIRECTORS' RESPONSIBILITY FOR THE INTERIM FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation and presentation of interim financial information in accordance with HKAS 34 and for such internal control as the directors determine is necessary to enable the preparation of interim financial information that is free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on the interim financial information based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Except for the inability to obtain sufficient appropriate audit evidence as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement. Because of the matters described in the Basis for Disclaimer of Opinion paragraphs, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

BASIS FOR DISCLAIMER OF OPINION

(1) Opening balances and corresponding figures

Our audit opinion on the consolidated financial statements of the Group for the year ended 30 June 2012 (the "**2012 Financial Statements**"), which forms the basis for the corresponding figures presented in the interim financial information, was disclaimed because of the significance of the possible effect of the limitation on the scope of our audit and the material uncertainty in relation to going concern. The details of the basis for disclaimer opinion are set out in our independent auditors' report dated 6 December 2012. Accordingly, we were unable to form an opinion as to whether the 2012 Financial Statements gave a true and fair view of the state of affairs of the Group at 30 June 2012 and of the Group's results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

(2) Investment in unconsolidated subsidiaries

As further explained in note 2 to the interim financial information, the directors of the Company are unable to obtain complete books and records of Blu Spa (Hong Kong) Limited (the "**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**"). Due to the lack of complete books and records of the Unconsolidated Subsidiaries, the financial statements of the Unconsolidated Subsidiaries have not been consolidated into the Group's interim financial information.

As disclosed in the Company's announcement dated 9 April 2013, a firm of independent forensic accountants was engaged to investigate and comment on the reasons of the resignation of the former auditors of the Group and the basis for disclaimer of opinion in respect of the Group's consolidated financial statements for the year ended 30 June 2011 (the "**Forensic Investigation**"). Based on the result of the Forensic Investigation, the directors of the Company concluded that, among other things, there were possible irregularities in respect of a considerable number of past transactions and possible misstatements of certain transactions and balances recorded in the books and records of the Group which mainly concern the Group's operation involving BSHK Group. Furthermore, as disclosed in the Company's announcement dated 19 February 2013, BSHK commenced creditors' voluntary liquidation and joint and several liquidators were appointed by a resolution of BSHK's creditors on 26 February 2013.

Given these circumstances, the directors of the Company concluded that the financial statements of the Unconsolidated Subsidiaries have not been consolidated in the Group's interim financial information which was consistent to prior year.

Whilst the directors of the Company consider that the exclusion of the Unconsolidated Subsidiaries is the best way of presenting the Group's financial position, results and cash flows at and for the period in the circumstances, the exclusion of the financial position, results and cash flows of the Unconsolidated Subsidiaries from the interim financial information is a departure from the requirements of Hong Kong Accounting Standard 27 (Revised) "Consolidated and Separate Financial Statements". Had the Unconsolidated Subsidiaries been consolidated, many elements in the interim financial information would have been materially affected. Due to the lack of complete books and records of the Unconsolidated Subsidiaries mentioned above, we are unable to ascertain the impact of the potential irregularities with respect to the accounting records and transactions of the Unconsolidated Subsidiaries, if any, and the non-consolidation of the Unconsolidated Subsidiaries on the interim financial information. We have also not been able to obtain sufficient appropriate evidence and explanations to determine whether the carrying values of the investments in the Unconsolidated Subsidiaries were free from material misstatements. Any adjustments that might have been found to be necessary would have a consequential significant effect on the net assets of the Group at 31 December 2012 and the loss and cash flows of the Group for the period ended.

(3) Scope of limitation — Balances with the Unconsolidated Subsidiaries

As further explained in note 2 to the interim financial information, the Group had amounts due from and amounts due to the Unconsolidated Subsidiaries of approximately HK$279,460,000 and HK$1,330,000 respectively at 31 December 2012 (collectively referred as to the "**Balances with the Unconsolidated Subsidiaries**"). The directors of the Company are of the view that the carrying values of the amounts due from the Unconsolidated Subsidiaries to the Group are not recoverable and recognised impairment losses of approximately HK$90,000 and HK$240,593,000 for the six months ended 31 December 2012 and for year ended 30 June 2012 respectively.

Due to lack of complete books and records of the Unconsolidated Subsidiaries, we have not been able to obtain sufficient appropriate audit evidence to determine whether the Balances with the Unconsolidated Subsidiaries and the impairment losses recognised on the amounts due from the Unconsolidated Subsidiaries to the Group are free from material misstatements. Any adjustments that might have been found to be necessary would have a consequential significant effect on the net assets of the Group at 31 December 2012 and the loss attributable to the equity holders of the Company for the six months ended 31 December 2012.

(4) Going concern basis of accounting

As disclosed in note 2 to the interim financial information, the Group incurred a loss attributable to the owners of the Company of approximately HK$13,558,000 for the six months ended 31 December 2012, which indicates the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

The interim financial information have been prepared on a going concern basis. The validity of the going concern assumption on which the interim financial information are prepared is dependent on the favorable outcomes of (i) the repayment of the amounts due from the Unconsolidated Subsidiaries of approximately HK$36,450,000 of which details were set out in the Company's announcement dated 29 January 2013; (ii) the extension of repayment of loan facility of approximately HK$31,403,000 granted by a company owned by an executive director of which details were set out in the Company's announcement dated 2 April 2013; (iii) the completion of the conditional subscription agreement, in which was under certain conditions as further disclosed in note 2, in respect of the issue of convertible bonds in the principal amount of HK$40,000,000 of which details were set out in the Company's announcement dated 21 March 2013 and (iv) the completion of the conditional unsecured loan agreement, in which was under certain conditions as further disclosed in note 2, in the principal amount of HK$40,000,000 of which details were set out in the Company's announcement dated 21 March 2013 (the "**Proposed Plans**").

The interim financial information do not include any adjustments that would result from a failure to attain favorable results of the Proposed Plans.

Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised at other than the amounts at which they are currently recorded in the condensed consolidated statement of financial position. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets as current assets. We consider that appropriate disclosures have been made in the interim financial information. However, in view of the extent of the uncertainty relating to the outcomes of the Proposed Plans, we disclaim our opinion in respect of the going concern basis.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the interim financial information for the six months ended 31 December 2012 as to whether it is prepared in accordance with HKAS 34 "Interim Financial Reporting".

OTHER MATTER

We draw attention to the fact that the comparative figures set out in the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six months ended 31 December 2011 and related disclosures in the interim financial information have not been audited in accordance with Hong Kong Standard on Auditing issued by the HKICPA.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 19 April 2013

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the three months and six months ended 31 December 2012

		For the three months ended 31 December		For the six months ended 31 December	
		2012	2011	**2012**	2011
		(Unaudited)	(Unaudited)	**(Audited)**	(Unaudited)
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Turnover	6	**865**	—	**4,394**	—
Cost of sales		**(2,282)**	—	**(6,779)**	—
Gross loss		**(1,417)**	—	**(2,385)**	—
Other revenue		**—**	—	**2**	—
Selling and distribution costs		**(596)**	—	**(649)**	—
Administrative expenses		**(4,937)**	(1,076)	**(8,891)**	(2,015)
Impairment loss recognised in respect of intangible assets		**—**	—	**—**	(7,488)
Impairment loss recognised in respect of deposits, prepayments and other receivables		**(90)**	489	**(90)**	(229,445)
Gain on de-consolidation of subsidiaries	23	**—**	—	**—**	155,547
Finance costs	7	**(872)**	—	**(1,545)**	—
Loss before taxation		**(7,912)**	(587)	**(13,558)**	(83,401)
Income tax expense	9	**—**	—	**—**	—
Loss for the period	8	**(7,912)**	(587)	**(13,558)**	(83,401)
Other comprehensive income					
Item that may be reclassified subsequently to profit or loss:					
Release of translation reserve upon de-consolidation of subsidiaries		**—**	—	**—**	4
Other comprehensive income for the period		**—**	—	**—**	4
Total comprehensive expenses for the period		**(7,912)**	(587)	**(13,558)**	(83,397)
Loss for the period attributable to:					
Owners of the Company		**(7,912)**	(587)	**(13,558)**	(83,401)
Total comprehensive expenses for the period attributable to:					
Owners of the Company		**(7,912)**	(587)	**(13,558)**	(83,397)
Loss per share *(HK cent(s))*	11				
— Basic and diluted		**(0.60)**	(0.04)	**(1.03)**	(6.45)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2012

	Notes	At 31 December 2012 (Audited) HK$'000	At 30 June 2012 (Audited) HK$'000
Non-current assets			
Intangible assets	12	**—**	—
Property, plant and equipment	13	**7,014**	3,156
		7,014	3,156
Current assets			
Inventories	14	**1,025**	1,943
Trade receivables	15	**99**	—
Deposits, prepayments and other receivables	16	**41,493**	52,272
Bank balances and cash	17	**301**	308
		42,918	54,523
Current liabilities			
Amount due to a former director		**64**	64
Deposits from customers	18	**55**	551
Trade payables	19	**7**	—
Accruals and other payables	20	**5,984**	11,451
Obligation under financial leases		**110**	105
Other borrowing	21	**31,403**	19,586
		37,623	31,757
Net current assets		**5,295**	22,766
Total assets less current liabilities		**12,309**	25,922
Non-current liability			
Obligation under financial leases		**394**	449
Net assets		**11,915**	25,473
Equity attributable to owners of the Company			
Share capital	22	**131,220**	131,220
Reserves		**(119,305)**	(105,747)
Total equity		**11,915**	25,473

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2012

	Share capital HK$'000	Share premium HK$'000	Merger reserve HK$'000 (Note 1)	Translation reserve HK$'000 (Note 2)	Accumulated losses HK$'000	Total equity HK$'000
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:						
Release of translation reserve upon de-consolidation of subsidiaries	—	—	—	4	—	4
Total comprehensive expenses for the period	—	—	—	4	(83,401)	(83,397)
Issue of shares pursuant to the subscription agreements 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
At 1 July 2012 (audited)	**131,220**	**175,357**	**22,734**	**—**	**(303,838)**	**25,473**
Loss for the period	**—**	**—**	**—**	**—**	**(13,558)**	**(13,558)**
Total comprehensive expense for the period	**—**	**—**	**—**	**—**	**(13,558)**	**(13,558)**
At 31 December 2012 (audited)	**131,220**	**175,357**	**22,734**	**—**	**(317,396)**	**(11,915)**

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.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 31 December	
	2012	2011
	(Audited)	(Unaudited)
	HK$'000	*HK$'000*
Net cash used in operating activities	**(7,285)**	(17,363)
Net cash used in investing activities	**(4,489)**	—
Net cash generated from financing activities	**11,767**	16,088
Net decrease in cash and cash equivalents	**(7)**	(1,275)
Cash and cash equivalents at the beginning of the period	**308**	1,436
Cash and cash equivalents at the end of the period	**301**	161
Analysis of balances of cash and cash equivalents		
Bank balances and cash	**301**	161

NOTES TO THE INTERIM FINANCIAL INFORMATION

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 principal place of business of the Company is Unit B, 9/F., The Grande Building, 398 Kwun Tong Road, Kowloon, Hong Kong.

The interim financial information are presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of the Company and all values are rounded to the nearest thousand ("HK$'000") except otherwise indicated.

The Company's principal activity is investment holding and the principal activities of its principal subsidiaries are developing, distributing and marketing of personal care treatment, products and services.

2. BASIS OF PREPARATION AND CONSOLIDATION

The interim financial information for the six months ended 31 December 2011 and 2012 have been prepared in accordance with the applicable disclosure requirements set out in Chapter 18 to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and Hong Kong Accounting Standards ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The interim financial information do not include all the information and disclosure required in the annual financial statements, and should be read in conjunction with the Group's annual report for the year ended 30 June 2012 (the "2012 Financial Statements").

Going concern basis

These interim financial information 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$13,558,000 for the six months ended 31 December 2012, 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 of the Company 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 interim financial information have been prepared on a going concern basis. The validity of the going concern assumption on which the interim financial information are prepared is dependent on the favorable outcomes of (i) the repayment of the amounts due from the Unconsolidated Subsidiaries (as defined below) of approximately HK$36,450,000 of which details were set out in the Company's announcement dated 29 January 2013; (ii) the extension of repayment of loan facility of approximately HK$31,403,000 granted by a company owned by an executive Director of which details were set out in the Company's announcement dated 2 April 2013; (iii) the completion of the conditional subscription agreement in respect of the issue of convertible bonds in the principal amount of HK$40,000,000 of which details were set out in the Company's announcement dated 21 March 2013 and (iv) the completion of the conditional unsecured loan agreement in the principal amount of HK$40,000,000 of which details were set out in the Company's announcement dated 21 March 2013 (the "Proposed Plans").

The completion of the subscription agreement in respect of the issue of convertible bonds in the principal amount of HK$40,000,000 ("Subscription Agreement") is conditional upon:

(a) the passing of the necessary resolution(s) by the independent shareholders who are allowed to vote under the GEM Listing Rules, The Hong Kong Code on Takeovers and Mergers ("Takeovers Code") and/or other applicable laws and regulations approving separately at the extraordinary general meeting (i) the Subscription Agreement and the transaction contemplated thereunder (including but not limited to the issue of the convertible bonds and the allotment and issue of the conversion shares); and (ii) the grant of the waiver to be granted by the Securities and Future Commission of Hong Kong ("SFC");

(b) the listing committee of Growth Enterprise Market of The Stock Exchange of Hong Kong Limited having granted the listing of and permission to deal in, the conversion shares;

(c) the warranties under the Subscription Agreement remaining true and correct in all material respects;

(d) all necessary consents and approvals (including but not limited to approval from the board of Directors and the relevant regulatory approval pursuant to the GEM Listing Rules and the Takeovers Code) as may be required to be obtained by the Company in respect of the Subscription Agreement and the transactions contemplated thereby having been obtained;

(e) the publication of an announcement of the subscriber holding in relation to the Subscription Agreement and the transactions contemplated thereunder in compliance with Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules");

(f) the granting of the waiver by the SFC; and

(g) the capital reorganisation having become effective.

The completion of the conditional unsecured loan agreement in the principal amount of HK$40,000,000 ("Loan Agreement") is conditional upon the fulfillment of the following conditions:

(a) completion of the Subscription Agreement;

(b) the publication of an announcement of the subscriber holdings in relation to the Subscription Agreement and the Loan Agreement and the transactions contemplated respectively thereunder in compliance with Chapter 14 of the Listing Rules; and

(c) the passing of the necessary resolution by the independent shareholders who are allowed to vote under the GEM Listing Rules, the Takeovers Code and/or other applicable laws and regulations approving at the extraordinary general meeting the Loan Agreement and the transaction contemplated thereunder.

The interim financial information 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 completed 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 interim financial information on a going concern basis.

The applicability of the going concern basis depends on the outcomes 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. The interim financial information 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 interim financial information 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 the interim financial information.

Investments in unconsolidated subsidiaries

The interim financial information for the six months ended 31 December 2012 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, Blu Spa (Hong Kong) Limited ("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 six months ended 31 December 2012 and for the year ended 30 June 2012.

On 19 February 2013, the Board announced that the sole director of BSHK proposed to voluntarily wind-up BSHK and appointed Messrs. Osman Mohammed Arab and Wong Kwok Keung as joint and several provisional liquidators. Upon the appointment of the liquidators, the assets of BSHK will be realised, where possible and appropriate. The estimated loss to the Group arising from the winding-up of BSHK will be approximately HK$1.2 million. Details of which were set out in the Company's announcement dated 19 February 2013.

Furthermore, as set out in the Company's announcement dated 9 April 2013, a firm of independent forensic accountants was engaged to investigate and comment on the reasons of the resignation of the former auditors of the Group and the basis for disclaimer of opinion in respect of the Group's consolidated financial statements for the year ended 30 June 2011 (the "Forensic Investigation"). Based on the result of the Forensic Investigation, the directors of the Company concluded that, among other things, there were possible irregularities in respect of a considerable number of past transactions and possible misstatements of certain transactions and balances recorded in the books and records of the Group which mainly concern the Group's operation involving BSHK Group.

Given these circumstances, the directors have not consolidated the financial statements of the Unconsolidated Subsidiaries in these interim financial information. As such, the results, assets and liabilities of the Unconsolidated Subsidiaries have not been included into the 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 at 1 July 2011 of approximately HK$155,547,000, have been recognised in the 2012 Financial Statements. Moreover, at 31 December 2012 and 30 June 2012, the amounts due from the Unconsolidated Subsidiaries to the Group of approximately HK$279,460,000 and HK$288,303,000 respectively, among which approximately HK$90,000 and HK$240,593,000 respectively was considered not recoverable and impairment losses had been recognised for the six months ended 31 December 2012 and in the 2012 Financial Statements respectively.

In the opinion of the Directors, these interim financial information and the 2012 Financial Statements are 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 and result of the Forensic Investigation. However, the de-consolidation of the Unconsolidated Subsidiaries from the beginning of the year 1 July 2011 were not in compliance with the requirements of Hong Kong Accounting Standard 27 (Revised) "Consolidated and Separate Financial Statements".

3. ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the interim financial information for the six months ended 31 December 2012 requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and key sources of uncertainty were the same as those applied in the preparation of the 2012 Financial Statements.

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

The accounting policies used in the preparation of the interim financial information for the six months ended 31 December 2012 are consistent with those used in the 2012 Financial Statements, except for the adoption of the revised HKFRSs as of 1 July 2012 as noted below.

HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income
HKAS 12 (Amendments)	Deferred Tax — Recovery of Underlying Assets

The adoption of the new and revised HKFRSs has no material effect on these interim financial information.

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[1]
HKFRS 1 (Amendments)	Amendments to HKFRS 1 First Time Adoption of Hong Kong Financial Reporting Standards — Government Loans[1]
HKFRS 7 (Amendments)	Disclosures — Offsetting Financial Assets and Financial Liabilities[1]
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosure[3]
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	Investment Entities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 19 (2011)	Employee Benefits[1]
HKAS 27 (2011)	Separate Financial Statements[1]
HKAS 28 (2011)	Investments in Associates and Joint Ventures[1]
HKAS 32 (Amendments)	Presentation — Offsetting Financial Assets and Financial Liabilities[2]
HK(IFRIC) — Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

[1] Effective for annual periods beginning on or after 1 January 2013
[2] Effective for annual periods beginning on or after 1 January 2014
[3] 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.

5. SEGMEMT 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:

(i) Sales of beauty equipment

(ii) Sales of beauty products

(iii) Therapy services

For the six months ended 31 December 2012

OPERATING SEGMENT	Sales of beauty equipment (Audited) *HK$'000*	Sales of beauty products (Audited) *HK$'000*	Therapy services (Audited) *HK$'000*	Consolidated (Audited) *HK$'000*
REVENUE				
Revenue from external customers	1,140	1,736	1,518	4,394
RESULTS				
Segment profit (loss) for reportable segment	72	(2,493)	(613)	(3,034)
Other revenue				2
Unallocated administrative expenses				(8,891)
Finance costs				(1,545)
Loss before tax				(13,468)
Income tax expense				—
Core loss for the year				(13,468)
MAJOR NON-CASH ITEMS				
— Impairment loss recognised in respect of deposits, prepayments and other receivables				(90)
				(13,558)

For the six months ended 31 December 2011

OPERATING SEGMENT	Sales of beauty equipment (Unaudited) *HK$'000*	Sales of beauty products (Unaudited) *HK$'000*	Therapy services (Unaudited) *HK$'000*	Consolidated (Unaudited) *HK$'000*
REVENUE				
Revenue from external customers	—	—	—	—
RESULTS				
Segment profit (loss) for reportable segment	—	—	—	—
Other revenue				—
Unallocated administrative expenses				(2,015)
Finance costs				—
Loss before tax				(2,015)
Income tax expense				—
Core loss for the year				(2,015)
MAJOR NON-CASH ITEMS				
— Impairment loss recognised in respect of intangible assets				(7,488)
— Impairment loss recognised in respect of deposits, prepayments and other receivables				(229,445)
— Gain on de-consolidation of subsidiaries				155,547
				(83,401)

Segment assets

For the six months ended 31 December 2012

OPERATING SEGMENT	**Sales of beauty equipment (Audited)** ***HK$'000***	**Sales of beauty products (Audited)** ***HK$'000***	**Therapy services (Audited)** ***HK$'000***	**Consolidated (Audited)** ***HK$'000***
ASSETS				
Segment assets	—	856	2,068	2,924
Unallocated corporate assets				47,008
Consolidated total assets				49,932

For the six months ended 31 December 2011

OPERATING SEGMENT	Sales of beauty equipment (Unaudited) *HK$'000*	Sales of beauty products (Unaudited) *HK$'000*	Therapy services (Unaudited) *HK$'000*	Consolidated (Unaudited) *HK$'000*
ASSETS				
Segment assets	—	—	—	—
Unallocated corporate assets				49,108
Consolidated total assets				49,108

Revenue reported above represents revenues generated from external customers. There were no inter-segment sales during the period 2012 (2011: 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.

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

Geographical information

The Group mainly operated in Hong Kong after de-consolidation of the Unconsolidated Subsidiaries.

Information about major customer

No other single customer contributed 10% or more to the Group's revenue for the six months ended 31 December 2012 and 31 December 2011.

6. TURNOVER

	For the three months ended 31 December		**For the six months ended 31 December**	
	2012	2011	**2012**	2011
	(Unaudited)	(Unaudited)	**(Audited)**	(Unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Sales of beauty equipment	**—**	—	**1,140**	—
Sales of beauty products	**427**	—	**1,736**	—
Therapy services	**438**	—	**1,518**	—
	865	—	**4,394**	—

7. FINANCE COSTS

	For the three months ended 31 December		For the six months ended 31 December	
	2012	2011	**2012**	2011
	(Unaudited)	(Unaudited)	**(Audited)**	(Unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Interest expenses on other borrowing *(Note)*	**866**	—	**1,532**	—
Interest expenses on finance lease	**6**	—	**13**	—
	872	—	**1,545**	—

Note:

Interest expenses on other borrowing were interest expenses on the loan advanced by Koffman Investment Limited ("Koffman"), in which Mr. Yu Shu Kuen, an executive Director, managing Director and the Chairman, is the ultimate beneficial owner, with a term of 3 months from 27 March 2012 at interest rate of 12% per annum. On 26 June 2012, 26 September 2012, 26 October 2012 and 26 November 2012, 7 December 2012, 31 December 2012, 15 January 2013, 31 January 2013, 28 February 2013 and 2 April 2013, the Company has entered into ten supplementary loan agreements with Koffman to extend the repayment date of the above loan from 27 June 2012 to 30 April 2013. Details of which were set out in note 26 (a).

8. LOSS FOR THE PERIOD

	For the three months ended 31 December		For the six months ended 31 December	
	2012	2011	**2012**	2011
	(Unaudited)	(Unaudited)	**(Audited)**	(Unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Loss for the period before tax has been arrived at after (charging) crediting				
Staff costs including directors' remunerations	**(3,155)**	(810)	**(5,967)**	(1,407)
Depreciation of property, plant and equipment	**(384)**	—	**(632)**	—
Impairment loss recognised in respect of intangible assets	**—**	—	**—**	(7,488)
Impairment loss recognised in respect of deposits, prepayments and other receivables	**(90)**	489	**(90)**	(229,445)
Gain on de-consolidation of subsidiaries	**—**	—	**—**	155,547
Provision of inventories	**(19)**	—	**(19)**	—

9. 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 2012 (2011: Nil).

(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 2012 (2011: Nil).

(iii) The Group had no significant unprovided deferred tax assets and liabilities at 31 December 2012 (2011: Nil).

10. DIVIDEND

The Directors did not recommend payment of interim dividend for the six months ended 31 December 2012 (31 December 2011: Nil).

11. 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 2012 of approximately HK$7,912,000 (2011: loss attributable to owners of the Company of approximately HK$587,000) and loss attributable to owners of the Company for the six months ended 31 December 2012 of approximately HK$13,558,000 (2011: loss attributable to owners of the Company of approximately HK$83,401,000) and the weighted average of 1,312,200,000 shares in issue during the three months ended 31 December 2012 (2011: 1,312,200,000 shares) and the weighted average of 1,312,200,000 shares in issue during the six months ended 31 December 2012 (2011: 1,291,276,087 shares).

12. INTANGIBLE ASSETS

	(Audited) *HK$'000* Trademark
Cost	
At 1 July 2011, 30 June 2012 and 31 December 2012	18,720
Accumulated amortisation and impairment	
At 1 July 2011	11,232
Impairment loss recognised	7,488
At 30 June 2012 and 1 July 2012 and 31 December 2012	18,720
Carrying amounts	
At 31 December 2012	—
At 30 June 2012	—

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 7 years at the beginning of the reporting period.

Impairment test on trademark

The Group completed its impairment test for the intangible asset by comparing its recoverable amount to the carrying amount as at 30 June 2012. 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 30 June 2012, 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 approximately HK$7,488,000 was recognised in the consolidated statement of comprehensive income for the year ended 30 June 2012.

13. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery *HK$'000*	Leasehold improvement *HK$'000*	Furniture, fixture and equipment *HK$'000*	Motor vehicle *HK$'000*	Total *HK$'000*
Cost					
At 1 July 2011	710	2,239	876	246	4,071
De-consolidation of Unconsolidated Subsidiaries *(note 23)*	(710)	(2,239)	(876)	(246)	(4,071)
Additions	530	1,263	895	611	3,299
Disposals	—	—	(17)	—	(17)
At 30 June 2012 and 1 July 2012	530	1,263	878	611	3,282
Additions	478	3,543	1,072	—	5,093
Disposals	(523)	—	(136)	—	(659)
At 31 December 2012	**485**	**4,806**	**1,814**	**611**	**7,716**
Accumulated depreciation and impairment					
At 1 July 2011	429	749	620	135	1,933
De-consolidation of Unconsolidated Subsidiaries *(note 23)*	(429)	(749)	(620)	(135)	(1,933)
Charge for the year	14	42	29	41	126
Disposals	—	—	—	—	—
At 30 June 2012 and 1 July 2012	14	42	29	41	126
Charge for the period	56	362	153	61	632
Disposals	(43)	—	(13)	—	(56)
At 31 December 2012	**27**	**404**	**169**	**102**	**702**
Carrying amounts					
At 31 December 2012 (audited)	**458**	**4,402**	**1,645**	**509**	**7,014**
At 30 June 2012 (audited)	516	1,221	849	570	3,156

Included in the carrying amounts of furniture, fixture and equipment and motor vehicle of approximately HK$36,000 and HK$509,000 respectively are the assets under finance leases.

14. INVENTORIES

	At 31 December 2012 (Audited) ***HK$'000***	At 30 June 2012 (Audited) *HK$'000*
Raw materials	—	33
Finished goods	**1,044**	1,910
Less: Provision of inventories	**(19)**	—
	1,025	1,943

Movements in write down of inventories:

	At 31 December 2012 (Audited) *HK$'000*	At 30 June 2012 (Audited) *HK$'000*
Balance at the beginning of the reporting period	**—**	(449)
De-consolidation of the Unconsolidated Subsidiaries	**—**	449
Provision of inventories during the reporting period	**(19)**	—
	(19)	—

15. TRADE RECEIVABLES

	At 31 December 2012 (Audited) *HK$'000*	At 30 June 2012 (Audited) *HK$'000*
Trade receivables	**99**	—

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

Group allows credit period ranging from one month to four months to its customers. Details of the ageing analysis of the trade receivables is as follows:

	At 31 December 2012 (Audited) *HK$'000*	At 30 June 2012 (Audited) *HK$'000*
0–60 days	**91**	—
61–120 days	**8**	—
	99	—

16. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	At 31 December 2012 (Audited) HK'000	At 30 June 2012 (Audited) HK$'000
Deposits	**4,793**	6,311
Less: Impairment loss recognised	**—**	(2,500)
Less: Written off as uncollectible during the period	**(2,500)**	—
	2,293	3,811
Prepayments	**231**	377
Less: Impairment loss recognised	**—**	—
	231	377
Other receivables	**5,192**	5,374
Less: Impairment loss recognised	**—**	(5,000)
Less: Written off as uncollectible during the period	**(5,000)**	—
	192	374
Amounts due from Unconsolidated Subsidiaries *(Note)*	**279,460**	288,303
Less: Impairment loss recognised	**(240,683)**	(240,593)
	38,777	47,710
	41,493	52,272

Note:

The amounts due from the Unconsolidated Subsidiaries are non-interest bearing, unsecured and repayable on demand.

17. BANK BALANCES AND CASH

	At 31 December 2012 (Audited) HK'000	At 30 June 2012 (Audited) HK$'000
Cash at bank and on hand	**301**	308

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

18. DEPOSITS FROM CUSTOMERS

	At 31 December 2012 (Audited) *HK'000*	At 30 June 2012 (Audited) *HK$'000*
Deposits from customers	**55**	551

The deposits from customers represented the deposits paid received for therapy services, beauty products and beauty equipment.

19. TRADE PAYABLES

	At 31 December 2012 (Audited) *HK'000*	At 30 June 2012 (Audited) *HK$'000*
Trade payables	**7**	—

The Group normally obtains credit terms ranging from one month to three months from its suppliers.

Details of the ageing analysis of the trade payables is as follows:

	At 31 December 2012 (Audited) *HK'000*	At 30 June 2012 (Audited) *HK$'000*
0–30 days	**7**	—

20. ACCRUALS AND OTHER PAYABLES

	At 31 December 2012 (Audited) *HK$'000*	At 30 June 2012 (Audited) *HK$'000*
Accruals	**3,145**	2,849
Other payables	**1,509**	2,356
Amounts due to the Unconsolidated Subsidiaries (Note)	**1,330**	6,246
	5,984	11,451

Note:

The amounts due to the Unconsolidated Subsidiaries are non-interest bearing, unsecured and repayable on demand.

21. OTHER BORROWING

	At 31 December 2012 (Audited) *HK$'000*	At 30 June 2012 (Audited) *HK$'000*
Within one year	**31,403**	19,586

Included in other borrowing of approximately HK$31,403,000 was a loan advanced by Koffman with a term of 3 months from 27 March 2012 at interest rate of 12% per annum. On 26 June 2012, 26 September 2012, 26 October 2012, 26 November 2012, 7 December 2012, 31 December 2012, 15 January 2013, 31 January 2013, 28 February 2013 and 2 April 2013, the Company has entered into ten supplementary loan agreements with Koffman to extend the repayment date of the above loan from 27 June 2012 to 30 April 2013. Details of which were set out in note 26 (a).

22. SHARE CAPITAL

	Number of shares	*HK$'000*
Authorised:		
At 1 July 2011, 30 June 2012 and 31 December 2012	5,000,000,000	500,000
Issued and fully paid:		
At 1 July 2011	1,202,200,000	120,220
Issue of new shares pursuant to a placing agreement dated 27 July 2011	110,000,000	11,000
At 30 June 2012, 1 July 2012 and 31 December 2012	1,312,200,000	131,200

23. DE-CONSOLIDATION OF SUBSIDIARIES

Save as disclosed in note 2 of the interim financial information, 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 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 of subsidiaries	140,860
Total consideration	—
Net cash outflow arising on de-consolidation:	
Bank balances and cash de-consolidated of	(66)

(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 of subsidiaries	72
Total consideration	—
Net cash outflow arising on de-consolidation:	
Bank balances and cash de-consolidated of	—

(d) Blu Spa International Limited

	Total
	HK$'000
Net liabilities de-consolidated:	
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	—

24. 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 and retail shops properties with lease terms under non-cancellable operating leases which are payable as follows:

	At 31 December 2012 (Audited)	At 30 June 2012 (Audited)
	HK$'000	*HK$'000*
Within one year	**3,964**	3,816
In the second to fifth years, inclusive	**2,268**	3,594
over five years	**—**	—
	6,232	7,410

25. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed in elsewhere to the interim financial information, the Group had the following material transactions with related parties during the period:

		For the six months ended 31 December	
Name of party	**Nature of transactions**	**2012**	2011
		(Audited)	(Unaudited)
		HK$'000	*HK$'000*
During the period, the Group entered into the following transactions with related parties:			
Koffman *(Note 1)*	Loan	**12,625**	—
	Settlement of Loan interest	**1,539**	—
BSHK *(Note 2)*	Sales of beauty equipments	**603**	—
The following balance was outstanding at the end of the reporting period:			
Koffman *(Note 1)*	Loan	**31,403**	—

Notes:

(1) Mr. Yu Shu Kuen, an executive Director, managing Director and the Chairman, is the ultimate beneficial owner of Koffman. Details of the transactions were set out in note 21 to the interim financial information.

(2) BSHK was de-consolidated on 1 July 2011. Details of which were set out in note 2 to the interim financial information.

Compensation for key management personnel

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

	For the six months ended 31 December	
	2012	2011
	(Audited)	(Unaudited)
	HK$'000	*HK$'000*
Short-term employee benefits	**684**	1,407
Post employment benefits	**8**	—
	692	1,407

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.

26. EVENTS AFTER REPORTING PERIOD

Saved as disclosed elsewhere in the interim financial information, the Group had the following material transactions after the end of the reporting period:

(a) On 15 January 2013, 31 January 2013, 28 February 2013 and 2 April 2013 the Company has entered into four supplementary loan agreements with Koffman to extend the repayment date of the above loan from 27 June 2012 to 30 April 2013. Details of the agreement were set out in the Company's announcements dated 26 June 2012, 26 September 2012, 26 October 2012, 26 November 2012, 7 December 2012, 31 December 2012, 15 January 2013, 31 January 2013, 28 February 2013 and 2 April 2013.

(b) On 29 January 2013, the Company entered into a deed of assignment ("Deed of Assignment") with BSHK, which is a de-consolidated subsidiary of the Company, and a second deed of settlement (the "Second Deed") with BSHK and Mr. Shum Yeung ("Mr. Shum") in relation to the writ of summons (the "Writ") issued in the High Court of Hong Kong by BSHK on 25 September 2012.

(i) Pursuant to the Deed of Assignment, BSHK assigned and transferred to the Company all its right, title, interest and obligation under the deed of termination dated 5 April 2012 and four repayment extension agreements dated 4 July 2012, 24 July 2012, 3 August 2012 and 21 August 2012 respectively, in the consideration of HK$36,450,000 ("the Outstanding Principal Sum") to be paid by the Company to BSHK. Details of which were set out in the Company's announcement dated 5 April 2012, 4 July 2012, 24 July 2012, 3 August 2012, 21 August 2012, 28 September 2012, 26 October 2012, 1 November 2012, 21 December 2012 and 29 January 2013.

(ii) Pursuant to the Second Deed, BSHK, the Company and Mr. Shum agreed to settle the claims under the Writ and the Outstanding Principal Sum on the following terms:

(1) HK$1,822,500.00 payable to the Company on or before 29 January 2013;

(2) HK$389,465.70 payable to the Company on or before 29 January 2013;

(3) HK$1,736,118.49 payable on or before 29 January 2013;

(4) HK$120,000.00 payable to the Company on or before 29 January 2013; and

(5) HK$34,627,500.00 payable on or before 31 March 2013.

On 29 January 2013, the Company received HK$4,068,084.19 from Mr. Shum to settle the claims in accordance with the terms set out in the Second Deed.

(c) On 1 February 2013, EDS (Asia) Limited, an indirect wholly-owned subsidiary of the Company has entered into a tenancy agreement with Koffman Corporate Service Limited, of which Mr. Yu Shu Kuen, an executive Director, managing Director and Chairman of the Company, is the ultimate beneficial owner. Details of which were set out in the Company's announcement dated 1 February 2013.

(d) On 28 February 2013, a special resolution was passed at an extraordinary general meeting and an approval was obtained from the shareholders for approving the following events of the Company:

(i) to approve the amendment to the articles of association of the Company, the change of domicile and the adoption of the memorandum of continuance and the Bye-law, details of which were set out in resolution no.1 of the notice of extraordinary general meeting dated 24 January 2013 in the Company's announcement.

(ii) to approve the creation of the contributed surplus account, the cancellation and transfer of share premium account and the authorisation, details of which were set out in resolution no.2 of the notice of extraordinary general meeting dated 24 January 2013 in the Company's announcement.

(iii) to approve the capital reorganisation (involving the capital reduction and capital consolidation), details of which were set out in resolution no.3 of the notice of extraordinary general meeting dated 24 January 2013 in the Company's announcement.

(iv) to approve the change of Company name, details of which were set out in resolution no.4 of the notice of extraordinary general meeting dated 24 January 2013 in the Company's announcement.

Details of the announcement related to the (1) change of domicile; (2) capital reorganisation; (3) change of Company name; and (4) notice of extraordinary general meeting were set out in the Company announcements/circular dated 20 December 2012, 8 January 2013, 9 January 2013, 23 January 2013, 28 February 2013, 1 March 2013, 17 April 2013 and 19 April 2013.

(e) On 13 March 2013, Eternity Investment Limited ("Eternity") and its subsidiaries (the "Eternity Group") and the Company made a joint announcement regarding the negotiations for a potential subscription ("Potential Subscription") by the Eternity Group for convertible bonds be issued by the Company. Up to the date of the report, no definitive agreement in relation to the Potential Subscription has been entered between the Eternity Group and the Company.

On 21 March 2013, the Company and New Cove Limited, a company incorporated in the British Virgin Island with limited liability and an indirect wholly-owned subsidiary of Eternity, entered into the subscription agreement in respect of the issue of the convertible bonds in the principal amount of HK$40,000,000. Completion of the subscription agreement is subject to the conditions as set out in the announcement. The issue of the convertible bonds and the conversion shares to be allotted and issued upon the exercise of the conversion rights attaching to the convertible bonds will be subjected to a specific mandate to be approved by the independent shareholders at the extraordinary general meeting of the Company. Details of the announcement were disclosed in the Company's announcement dated 13 March 2013 and 21 March 2013.

(f) On 21 March 2013, the Company and Hong Kong Builders Finance Limited (the "Lender"), a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of Eternity, entered into the loan agreement, the Lender has conditionally agreed to grant an unsecured loan in the principal amount of HK$40,000,000 to the Company for a term of three years from the date of drawdown. Completion of the loan agreement will be conditional upon the completion of the Subscription Agreement and also be subject to the independent shareholders at the extraordinary general meeting of the Company. Details of the announcement were disclosed in the Company's announcement dated 21 March 2013.

On 2 April 2013, the Company established an independent board committee, which comprises Mr. Du Juanhong, Mr. Tam B Ray Billy, Mr. Chu Kin Wang Peleus and Mr. Tse Joseph, in compliance with Rule 2.8 of the Takeovers Code to advice the independent shareholders as to whether the Subscription Agreement and the transactions contemplated.

The Company has appointed New Spring Capital Limited as the independent financial adviser to advise the independent board committee and the independent shareholders in relation to the Subscription and the transaction contemplated.

Details of the announcement were disclosed in the Company's announcement dated 21 March 2013 and 2 April 2013.

(g) On 9 April 2013, the Company announced that the forensic report was issued on 28 September 2012 and the Company has submitted a copy of such report to the Stock Exchange on the even date. As the findings indicate that a considerable number of past transactions of the group may be fictitious, the Company has reported the matter to the Commercial Crime Bureau of the Hong Kong Police Force. Details of the announcement were disclosed in the Company's announcement on 28 September 2012 and 9 April 2013.

OTHER INFORMATION

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

As at 31 December 2012, the interests and short positions of the Directors and 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 of Directors	Nature of interests	Number of shares	Approximate percentage of shareholding *(Note 2)*
Mr. Wang Xiaofei ("Mr. Wang")	Personal interest	230,400,000	17.56%
Mr. Du Juanhong ("Mr. Du")	Corporate interest	106,580,000 *(Note 1)*	8.12%

Notes:

1. These shares were held by Hong Kong Wintek International Co., Limited ("Wintek") which was wholly-owned by Mr. Du who was appointed as non-executive Director on 5 March 2012. By virtue of the SFO, Mr. Du is deemed to be interested in the 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 2012.

Save as disclosed above, as at 31 December 2012, none of the Directors and the chief executive of the Company nor their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have 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 SHAREHOLDER'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2012, 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)*
Wintek	Beneficial owner	106,580,000	8.12%

Note:

1. The percentage is calculated on the basis of 1,312,200,000 shares of the Company in issue as at 31 December 2012.

Save as disclosed above, as at 31 December 2012, so far as 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 persons 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 PERSON'S INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

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

The Stock Exchange issued the Corporate Governance Code and Corporate Governance Report (the "CG Code and Report") contained in Appendix 15 of the GEM Listing Rules which sets out the principles and the code provisions which listed issuers are expected to apply and comply.

On 28 February 2013, the Company engaged ZHONGLEI Risk Advisory Services Limited to conduct a review of the Group's internal control system (the "ICR Review"). The compliance with the CG Code and Report is one of the scopes of the ICR Review. The review period is defined as the period from 1 July 2012 to 31 December 2012 and the report of the ICR Review was issued on 16 April 2013.

During the period under review, the Company has applied the principles as set out in the CG Code and Report that are considered relevant to the Company and has complied with most of the code provisions of the CG Code and Report save for certain deviations as stated below.

Notice of regular board meeting

Code provision A.1.3 of the CG Code and Report stipulates that notice of at least 14 days should be given of a regular board meeting to give all directors an opportunity to attend. During the period under review, at least 7 business days' notice of regular board meeting are given to all Directors. The board considers that 7 days' notice is adequate for all Directors to arrange for attending regular board meeting.

Insurance for potential legal actions against the Directors

Code provision A.1.8 of the CG Code and Report stipulates that the Company should arrange appropriate insurance to cover potential legal actions against its Directors. During the period under review, the Company had not yet been offered by any insurance company of any insurance policy for the Directors for indemnifying their liabilities arising from corporate activities.

Roles of Chairman and Chief Executive

Code provision A.2.1 of the CG Code and Report stipulates that the roles 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. Since then, the position of chief executive officer remains vacant.

Due to practical necessity of the Group's corporate operating structure, the roles of the chairman and the chief executive officer are both performed by Mr. Yu Shu Kuen who is the chairman and managing Director overseeing the operation and management of the Group. The Board believes that this structure will not impair the balance of power and authority between the Board and the management of the Company.

Establishment of written guidelines on dealings with the Company's shares

Code provision A.6.4 of the CG Code and Report stipulates that the board should establish written guidelines no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers for relevant employees in respect of their dealings in the Company's securities. During the period under review, no formal written guidelines on dealings with the Company's shares had been established. The board believes that all the relevant employees shall have the knowledge and understanding of the requirements under the Model Code for Securities Transactions by Directors of Listed Issuers by attending different training courses.

Financial reporting

Code provision C.1.2 of the CG Code and Report stipulates that management should provide all members of the Board with monthly updates giving balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail. During the period under review, the management of the Company did not provide monthly updates to all members of the Board, as all the executive Directors were involved in the daily operation of the Group and were fully aware of the performance, position and prospects, and the management of the Company has provided all Directors quarterly updates of the Company's performance, position and prospects in sufficient details during the regular board meetings of the Company.

Management functions

Code provisions D.1.1, D.1.2 and D.1.3 of the CG Code and Report stipulate that the board must give clear directions as to the powers of management, formalize the functions reserved to the board and those delegated to management and disclose the respective responsibilities, accountabilities and contributions of the board and management respectively. During the period under review, no formal written document was established to specify and formalize the functions reserved to the board and delegated to management and the division of responsibilities, accountabilities and contributions between the board and management. The board believes that clear directions were given to the management regarding their respective powers, responsibilities and accountabilities in relation to the daily operations of the Group through internal meetings between the board and the management.

Corporate Governance functions

Code provision D.3.1 of the CG Code and Report stipulates that the term of reference of the board (or a committee or committees performing this function) should include at least the duties specified in the CG Code and Report. During the period under review, no formal term of reference of the board was established. The board considers that it is aware of all the duties as set out in the CG Code and Report and endeavours to perform all those duties.

Effective communication

Code provision E.1.4 of the CG Code and Report stipulates the board should establish a shareholders' communication policy and review it on a regular basis to ensure its effectiveness. During the period under review, no formal shareholders' communication policy was established. The Company believes that it endeavours to maintain effective communication with shareholders through annual general meeting and other general meetings.

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 that 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 Hequn, 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 its code of conduct regarding securities transactions by Directors.

COMPETING INTERESTS

As at 31 December 2012, 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.

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.

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 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 audited condensed consolidated interim results for the six months ended 31 December 2012 and has provided comments thereon.

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

Hong Kong, 19 April 2013

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.