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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8176)

Annual Report 2011

* *for identification purpose only*

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

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

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

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

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CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Yu Shu Kuen
Mr. Wang Xiao Fei *(Mr. Lee Chan Wah as his alternate)*
Mr. Wang Shang Zhong
Mr. Ji He Qun

NON-EXECUTIVE DIRECTOR

Mr. Du Juan Hong *(Chairman)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tam B Ray, Billy
Mr. Chu Kin Wang, Peleus

COMPANY SECRETARY

Mr. Lee Chan Wah

COMPLIANCE OFFICER

Mr. Yu Shu Kuen

AUTHORISED REPRESENTATIVES

Mr. Yu Shu Kuen
Mr. Lee Chan Wah

REMUNERATION COMMITTEE

Mr. Chu Kin Wang, Peleus *(Chairman)*
Mr. Yu Shu Kuen

AUDIT COMMITTEE

Mr. Chu Kin Wang, Peleus *(Chairman)*
Mr. Tam B Ray, Billy

NOMINATION COMMITTEE

Mr. Chu Kin Wang, Peleus *(Chairman)*
Mr. Yu Shu Kuen
Mr. Tam B Ray, Billy

AUDITORS

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

PRINCIPAL BANKER

CITIC Bank International

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Secretaries Limited
26/F., Tesbury Centre
28 Queen's Road East
Wan Chai
Hong Kong

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit B, 9/F.
The Grande Building
398 Kwun Tong Road
Kowloon
Hong Kong

LEGAL ADVISORS

As to Hong Kong Law
Michael Li & Co

As to the Cayman Islands Law
Conyers Dill and Pearman

CORPORATE WEBSITE

http://www.bluspa.com

STOCK CODE

8176

CHAIRMAN'S STATEMENT

During the year under review, the Company together with its subsidiaries (collectively, the "Group") recorded a consolidated turnover of approximately HK$53.4 million, representing a decrease of 46.4% compared with approximately HK$99.7 million recorded in the last financial year. The Group's gross profit was approximately HK$15.9 million, representing a decrease of 76.3% as compared with approximately HK$67.1 million recorded in the last financial year. The Group recorded a net loss of approximately HK$185.7 million for the year ended 30 June 2011 compared to a net profit of approximately HK$27.1 million in the last financial year.

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. Since then, there is a change in the composition of the board of Directors (the "Board"). The current Board shall:

(i) try its efforts to effect a more efficient management of the Group's business. Up to the date of this report, the Group had terminated four beauty products sale counters located at Central, Tsuen Wan, Tuen Mun and Tseung Kwan O respectively and one spa centre located at Tai Kok Tsui. In addition, the Group has an intention to terminate the operations of four spa centres located at Central, Causeway Bay, West Kowloon and Cheung Sha Wan respectively and the hair rejuvenating centre located at Central upon expiration of the respective tenancy agreements. Meanwhile, the operations in the People's Republic of China (the "PRC") have been suspended temporarily until the restructure of the mode of operations of the Group's business in the PRC has been completed. The Board believes that the streamline of the Group's operations can enable the Group to concentrate its resources for the development of its existing business;

(ii) explore other business opportunities and re-engineer the business strategy of the Group. A new spa centre located at Causeway Bay is expected to be opened in July 2012. In addition, the Group is under negotiation with a skincare product manufacturer in France for the grant of an exclusive distribution right by the manufacturer to the Group for the sale and distribution of its skincare products in certain territories. The Group is also under negotiation with a well renowned hairstylist in the United States to cooperate by way of forming a joint venture company to develop a new line of hair and skincare products. The management believes that the possible introduction of the new line of hair and skincare products and the possible appointment as an exclusive distributor of a French brand skincare products, together with the opening of the new spa centre, will position the Group's products and services at an high-end image and inject momentum to boost the Group's revenue in the long run; and

(iii) rationalise the Group's future cash inflow and ensure the adequacy of general working capital available for the Group's operations. As at 30 June 2011, the Group had cash and bank balances amounted to approximately HK$1.4 million. The management had endeavoured to raise fund for the Group's operations. On 5 August 2011, the Company completed the placing of an aggregate of 110,000,000 new shares under general mandate at a placing price of HK$0.15 per placing share. The net proceeds of approximately HK$16.0 million from the placing had been utilized for general working capital. 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, an executive Director and managing Director, is the ultimate beneficial owner of Koffman, in the principal sum of HK$10 million and HK$20 million on 8 February 2012 and 27 March 2012 respectively. All the outstanding borrowings and interest expenses accrued thereon for the loan agreement entered into on 8 February 2012 had been repaid on 7 May 2012. Given the prolonged suspension in trading of the shares of the Company on the Stock Exchange, the Board considered that borrowings by way of debt financing to finance the Group's operations is reasonable and in the interests of the Group and the shareholders of the Company (the "Shareholders") as a whole. In addition, to ensure the sufficiency of general working capital for the Group's operations in the future, the Board tried its utmost effort to secure the Group's future cash inflow. On 5 April 2012, Blu Spa (Hong Kong) Limited ("BSHK"), a wholly-owned subsidiary of the Company, entered into a deed of termination to terminate the sale and purchase agreement dated 30 April 2010 in relation to the proposed acquisition of 70% equity interest in the target company and the sale loan and the indirect acquisition of a piece of land situated in Hua Du, Guangzhou, the PRC, and with certain buildings thereon for the consideration of HK$80 million. Pursuant to the deed of termination, the vendor in the transaction shall repay BSHK the full amount of the refundable deposit of HK$4.5 million in cash upon signing of the deed of termination and HK$40.5 million shall be paid within three months from the date of signing of the deed of termination. In addition, the Board tried its best effort to realise the Group's saleable assets, including but not limited to the inventories on hand, into cash in order to rationalise the future cash inflow.

On 7 March 2012, the former auditors of the Group, HLM & Co. ("HLM"), tendered their resignation as the external auditors of the Group. In view of the reasons for resignation as set out in the resignation letter issued by HLM to the Board, the Board has resolved on 7 March 2012 to establish a special investigation committee, comprising Mr. Yu Shu Kuen, an executive Director, Mr. Tam B Ray, Billy and Mr. Chu Kin Wang, Peleus, both are independent non-executive Directors, for the purpose of, (i) investigating the issues raised by HLM in their resignation letter; (ii) reviewing the internal control procedures and corporate governance policies of the Group; and (iii) making recommendations to the Board on appropriate actions to be taken. The special investigation committee is authorized to appoint independent professional advisers (including but not limited to accountants and legal advisers) to assist in the investigation of the issues raised by HLM in their resignation letter and to review the internal control procedures and corporate governance policies of the Group. The Company will keep Shareholders informed of the progress of the investigation by making further announcements.

With a view to addressing the issues raised by the auditors in relation to the Group's consolidated financial statements for the year ended 30 June 2011, the Board will conduct an investigation into the matters raised by them and a review of the Group's internal control system.

CHAIRMAN'S STATEMENT

PROSPECTS

The Group has continuously strengthened its management team which has been committed to rationalizing and reengineering its business strategies and processes to reduce costs and increase efficiency. In the long run, the Board will strive to resume trading in the shares of the Company on the Stock Exchange.

Du Juan Hong
Chairman
Hong Kong, 8 June 2012

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover of the Group was approximately HK$53.4 million for the year ended 30 June 2011, representing a decrease of 46.4% as compared with that of the previous year (2010: HK$99.7 million). The decrease in turnover was mainly attributable to a decrease in the sales of beauty equipment from approximately HK$76.0 million in the previous year to approximately HK$35.3 million in the current year and a decrease of royalty fee income from approximately HK$8.6 million in the previous year to approximately HK$3.8 million in the current year.

The Group's gross profit for the year ended 30 June 2011 was approximately HK$15.9 million, representing a decrease of 76.3% as compared with that of the previous year (2010: HK$67.1 million). The decrease in gross profit was mainly due to the revenue contributed by the sales of beauty equipment of which the profit margin was relatively lower as compared with that of the previous year.

Selling and distribution costs decreased by 48.6% to approximately HK$8.3 million from approximately HK$16.1 million in prior year. Such decrease was in line with the decrease of the Group's turnover.

Administrative expenses increased by 20.8% to approximately HK$16.8 million from approximately HK$13.9 million in prior year. Such increase was mainly attributable to an increase of audit fees, legal and professional fees, rental expenses and salaries during the year under review.

During the year under review, the Group recorded an impairment loss recognized in respect of trade receivables and an impairment loss recognized in respect of deposits, prepayments and other receivables amounted to approximately HK$117.5 million and approximately HK$52.1 million respectively. The impairment loss recognised in respect of trade receivables was mainly comprised the outstanding receivable due from the distributor amounted to approximately HK$114.4 million. The nature of the impairment loss recognised in respect of deposits, prepayments and other receivables was mainly the deposits and prepayments paid by the Group to its suppliers in relation to the purchase of raw materials and beauty products.

Finance costs increased by 133.3% to approximately HK$7.0 million from approximately HK$3.0 million in prior year. Such increase was mainly attributable to an increase of effective interest expenses of the convertible bonds issued by the Company on 29 April 2010.

Loss attributable to owners of the Company was approximately HK$185.7 million (2010: profit attributable to owners of the Company of HK$27.1 million). The deterioration in results was mainly attributable to the one-off expenses of impairment loss recognized in respect of trade receivables and impairment loss recognized in respect of deposits, prepayments and other receivables incurred during the year under review.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the year under review, the turnover of the Group amounted to approximately HK$53.4 million, representing a decrease of 46.4% as compared with that of the previous year (2010: HK$99.7 million). Such decrease was mainly attributable to the decrease in the sales of beauty equipment and royalty fee income.

Sales of beauty equipment

During the year under review, the revenue contributed by the sales of beauty equipment was HK$35.3 million, representing a decrease of 53.6% as compared with that of the previous year (2010: HK$76.0 million). Such decrease was attributable to the reduction in orders from the distributor. The gross profit margin decreased to 46.4% from 78.4% in prior year. The gross profit margin of the beauty equipments sold in the current year had a relatively lower gross profit margin as compared with that of the previous year.

Sales of beauty products

During the year under review, the sales of beauty products was approximately HK$10.6 million, representing a slight increase of 1.0% as compared with that of the previous year (2010: HK$10.5 million). Such increase was mainly contributed by the opening of a new skincare products sales counter located at Causeway Bay in October 2010. The gross profit margin decreased from 1.0% in the previous year to a gross loss margin of 7.9% as a result of extra sales discounts offered during the year under review.

Royalty fee income

During the year under review, the royalty fee income was approximately HK$3.8 million, representing a decrease of 55.8% as compared with that of the previous year (2010: HK$8.6 million). The decrease in the sales volume to the distributor resulted in the decrease of the royalty fee income received by the Group.

Therapy services

The revenue derived from the provision of therapy services was approximately HK$3.1 million, representing an increase of 19.2% as compared with that of the previous year (2010: HK$2.6 million). Such increase was mainly contributed by the full operation of all the spa centres and hair rejuvenating centre during the year under review. A gross loss margin of 126% and 124% was recorded in the current year and the previous year respectively.

Provision of training courses

The revenue derived from the provision of training courses was approximately HK$0.5 million, representing a decrease of 75.0% as compared with that of the previous year (2010: HK$2.0 million). Such decrease was attributable to the decrease in the number of training courses provided in the PRC during the year under review.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2011, the Group had total assets of approximately HK$134.2 million (2010: HK$278.2 million), including cash and bank balances of approximately HK$1.4 million (2010: HK$1.8 million).

During the year under review, the Group financed its operation with internally generated cash flows, borrowing from a third party and the proceeds from the issuance of new shares.

CAPITAL STRUCTURE

(a) Placing of new shares

On 29 November 2010, the Company and eight subscribers (the "Subscribers") entered into separate independent and conditional subscription agreements, pursuant to which the Subscribers had conditionally agreed to subscribe for and the Company had conditionally agreed to allot and issue under general mandate, an aggregate of 80,000,000 shares of the Company at a subscription price of HK$0.375 per subscription share. The subscription of the new shares was completed on 15 December 2010.

(b) During the year under review, 600,000,000 new shares were issued in respect of the conversion of convertible bonds in the principal amount of HK$114,000,000 at a conversion price of HK$0.19 per share.

(c) As at 30 June 2011, the total borrowings of the Group amounted to HK$2.0 million (2010: HK$71.7 million), representing the borrowing from a third party of HK$2.0 million which was unsecured, interest free and repayable within one year.

GEARING RATIO

The gearing ratio, expressed as percentage of total borrowings to total equity, was 1.8% (2010: 38.2%). The improvement in gearing ratio was mainly contributed by the conversion of the convertible bonds into new shares during the year under review.

MANAGEMENT DISCUSSION AND ANALYSIS

CHARGE ON THE GROUP'S ASSETS

As at 30 June 2011, the Group did not have any charge on its assets.

FOREIGN EXCHANGE RISK

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

COMMITMENTS

As at 30 June 2011, the Group had operating lease commitments of approximately HK$8.1 million (2010: HK$9.1 million).

CONTINGENT LIABILITIES

As at 30 June 2011, the Group had no contingent liabilities (2010: Nil).

EMPLOYEES

As at 30 June 2011, the Group had 100 employees. Their remuneration, promotion and salary review were assessed based on job responsibilities, work performance, professional experiences and the prevailing industry practices. The employees in Hong Kong joined the mandatory provident fund scheme.

SIGNIFICANT INVESTMENT

The Group did not enter into any new significant investment for the year ended 30 June 2011.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group did not make any material acquisition or disposal of subsidiaries and affiliated companies for the year ended 30 June 2011.

FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

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

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Yu Shu Kuen ("Mr. Yu"), aged 43, joined the Company as executive Director and managing Director on 13 February 2012. He is also the authorized representative, compliance officer, members of the remuneration committee and the nomination committee, chairman of the special investigation committee and directors of various subsidiaries of the Company. Mr. Yu has over 20 years of experience in the finance industry. He graduated from University of Southern California with a Bachelor of Arts degree in Social Sciences and Communication (Economics) in 1991. After that, Mr. Yu had worked in the investment banking field in Hong Kong for about two years and he went on to start his own financial service business in 1996. Mr. Yu has then gained extensive experience in the investment field, including securities brokerage services, futures trading, corporate finance, property investment, corporate restructuring, asset recovery and liquidation exercises. He was an executive director of each of a securities dealing company from April 1996 to September 2004 and a future trading company from 1997 to 2000. Mr. Yu also held a position of senior executive in a company listed on the main board of the Stock Exchange. He was an executive director of Infoserve Technology Corp., a company originally listed in Hong Kong and was delisted in May 2005, from November 2003 to January 2010. Mr. Yu was also appointed as an executive director and the managing director of M Dream Inworld Limited ("M Dream") (Stock Code: 8100), a company listed on GEM of the Stock Exchange, in January 2007 and was appointed as the chairman of the board of directors of M Dream in May 2008. He resigned from all his positions in M Dream in September 2009.

Mr. Wang Xiao Fei ("Mr. Wang"), aged 38, joined the Company as executive Director on 27 July 2011. He has over 16 years of experience in business administration and has also acquired extensive knowledge and expertise in the financial service industry and investment. Mr. Wang studied at the University of Science & Technology Beijing. He is currently studying at Chinese Academy of Social Sciences. Mr. Wang held the position of senior executive in various large enterprises.

Mr. Wang Shang Zhong ("Mr. Wang"), aged 48, joined the Company as executive Director on 10 August 2011. He has worked for banks, securities companies and investment companies for more than 10 years and has acquired extensive experiences in management and investment. During the period from 2006 to early 2011, Mr. Wang held the positions of director and president of Hengyi Petrochemical Co., Ltd. (formerly known as "Centennial Brilliance Science & Technology Co., Ltd.") (Shenzhen Stock Exchange stock code: 000703), a company listed on the Shenzhen Stock Exchange.

Mr. Ji He Qun ("Mr. Ji"), aged 32, joined the Company as non-executive Director on 16 July 2009 and subsequently re-designated to executive Director on 9 November 2009. He has acquired extensive knowledge and experience in telecommunication, shipping and financial service industries. Mr. Ji also has acquired extensive experience in corporate and financial management. He studied in the Institute of Electronic Education of Wuhan Polytechnic University from 1998 to 2000.

NON-EXECUTIVE DIRECTOR

Mr. Du Juan Hong ("Mr. Du"), aged 35, joined the Company as chairman and a non-executive Director on 5 March 2012. He has over 10 years of experience in sales and marketing. Mr. Du is currently the chairman of 上海里力電子有限公司 (Shanghai Lili Electronics Company Limited, being its unofficial English translation). He obtained a Bachelor degree in Engineering from Xian Jiaotong University and a Master degree in Public Administration from Fudan University.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tam B Ray, Billy ("Mr. Tam"), aged 43, joined the Company as independent non-executive Director on 5 March 2012. He is also members of audit committee, nomination committee and special investigation committee of the Company. Mr. Tam has been a practicing solicitor in Hong Kong for over 15 years. He is currently a partner of Messrs. Ho & Tam. Mr. Tam is holding a Bachelor in Laws degree from the University of London, a Bachelor degree in Laws of the People's Republic of China from Tsinghua University and a Master in Laws degree from The University of Hong Kong. He was independent non-executive directors of China Fortune Financial Group Limited (stock code: 290), a company listed on the main board of the Stock Exchange, since 2007, and M Dream Inworld Limited (stock code: 8100) and China Natural Investment Company Limited (stock code: 8250), both of which are listed on GEM of the Stock Exchange, since 2010 and 2011 respectively. Mr. Tam was also non-executive directors of Larry Jewelry International Company Limited (stock code: 8351), a company listed on GEM of the Stock Exchange, since 2010, and Milan Station Holdings Limited (stock code: 1150), a company listed on the main board of the Stock Exchange, since 2011.

Mr. Chu Kin Wang, Peleus ("Mr. Chu"), aged 47, joined the Company as independent non-executive Director on 5 March 2012. He is also chairmen of the audit committee, the remuneration committee and the nomination committee and member of the special investigation committee of the Company. Mr. Chu has over 20 years of experience in corporate finance, auditing, accounting and taxation. He graduated from the University of Hong Kong with a Master degree in Business Administration. Mr. Chu is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He is also an associate member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries. Mr. Chu is an executive director of Chinese People Holdings Company Limited (stock code: 681), a company listed on the main board of the Stock Exchange, since 2008. He is also an independent non-executive directors of each of EYANG Holdings (Group) Co., Limited (stock code: 117), Huayu Expressway Group Limited (stock code: 1823), Flyke International Holdings Limited (stock code: 1998) and China Vehicle Components Technology Holdings Limited (stock code: 1269), all the companies are listed on the main board of the Stock Exchange, since 2007, 2009, 2010 and 2011 respectively. During the period from September 2005 to March 2007, Mr. Chu was an executive director of Mastermind Capital Limited (formerly known as "Haywood Investments Limited") (stock code: 905), a company listed on the main board of the Stock Exchange. During the period from January 2008 to August 2010, he was an independent non-executive director of Sustainable Forest Holdings Limited (formerly known as "Bright Prosperous Holdings Limited") (stock code: 723), a company listed on the main board of the Stock Exchange. He was also the company secretary of Sun Century Group Limited (formerly known as "Hong Long Holdings Limited") (stock code: 1383), a company listed on the main board of the Stock Exchange, responsible for corporate finance, financial reporting and compliance and company secretarial matters from 2007 to 2010.

SENIOR MANAGEMENT

Mr. Lee Chan Wah ("Mr. Lee"), aged 43, appointed as company secretary of the Company on 13 February 2012 and as alternate Director to Mr. Wang Xiao Fei, an executive Director, on 5 March 2012. He has over 20 years of experience in the fields of auditing, accounting and finance. He is a member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

REPORT OF THE DIRECTORS

The Directors present their report and the audited consolidated financial statements of the Group for the year ended 30 June 2011.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. Details of the activities of its subsidiaries are set out in note 37 to the consolidated financial statements.

RESULTS AND APPROPRIATION

The results of the Group for the year ended 30 June 2011 are set out in the consolidated statement of comprehensive income on page 41 of this annual report.

The Directors do not recommend the payment of any dividend in respect of the year (2010: Nil).

FINANCIAL SUMMARY

The summary of the results and the assets and liabilities of the Group for the past five financial years is set out on page 104 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 18 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the Company's share capital during the year are set out in note 30 to the consolidated financial statements.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 44 and note 31 to the consolidated financial statements respectively.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 30 June 2011, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the amended and restated articles of association adopted by the Company on 8 May 2012 (the "Articles") and there is no restriction against such rights under the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

CONVERTIBLE BONDS

Details of the movements in convertible bonds during the year are set out in note 29 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

The Company did not have any reserves available for distribution to Shareholders as at 30 June 2011. (2010: HK$80,129,000).

CHARITABLE DONATIONS

The Group did not make any charitable donations during the year (2010: Nil).

EVENTS AFTER REPORTING PERIOD

Details of significant events occurred after the reporting period are set out in note 36 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the best knowledge of the Board, as at 8 June 2012, being the latest practicable date prior to printing of this report, the Company has maintained a sufficient public float.

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors

Mr. Yu Shu Kuen	(appointed on 13 February 2012)
Mr. Wang Xiao Fei (Mr. Lee Chen Wah as his alternate)	(appointed on 27 July 2011)
Mr. Wang Shang Zhong	(appointed on 10 August 2011)
Mr. Ji He Qun	
Ms. Chan Choi Har, Ivy	(resigned on 7 March 2012)
Mr. Gu Da Xin	(appointed on 4 March 2011 and resigned on 10 August 2011)

Non-executive Directors

Mr. Du Juan Hong	(appointed on 5 March 2012)
Ms. Liu Xin	(appointed on 14 September 2011 and resigned on 5 March 2012)
Mr. Cheung Tsun Hin, Samson	(re-designated from executive Director to non-executive Director on 24 December 2010 and resigned on 13 February 2012)
Mr. Chan Shun Kuen, Eric	(resigned on 13 February 2012)

Independent non-executive Directors

Mr. Tam B Ray, Billy	(appointed on 5 March 2012)
Mr. Chu Kin Wang, Peleus	(appointed on 5 March 2012)
Mr. Cheng Hai	(appointed on 10 August 2011 and removed by a special resolution passed at the extraordinary general meeting held on 8 May 2012)
Mr. Leung Yiu Cho	(appointed on 12 January 2012 and resigned on 22 March 2012)
Ms. Zhao Jing	(appointed on 14 September 2011 and resigned on 5 March 2012)
Mr. Lam Wai Pong	(resigned on 31 January 2012)
Mr. Chan Sze Hon	(resigned on 10 January 2012)
Ms. Liu Jiang	(appointed on 4 March 2011 and resigned on 10 August 2011)
Mr. Yeung Mario Bercasio	(resigned on 14 March 2011)

In accordance with article 84(1) of the Articles, Mr. Ji He Qun will retire from office by rotation and, being eligible, offer himself for re-election, and in accordance with article 83(3) of the Articles, Mr. Yu Shu Kuen, Mr. Wang Xiao Fei, Mr. Wang Shang Zhong, Mr. Du Juan Hong, Mr. Tam B Ray, Billy and Mr. Chu Kin Wang, Peleus will hold office until the forthcoming annual general meeting but, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

None of the Directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

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

As at 30 June 2011, the interests and short positions of the Directors and chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company and 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 or short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were required to be recorded in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 of the GEM Listing Rules, were as follows:

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

Name	Nature of interests	Number of shares	Approximate percentage of shareholding
Executive Directors			
Mr. Ji He Qun ("Mr. Ji")	Beneficial owner	234,010,000	19.46%
	Interest of spouse	1,760,000 (Note (1))	0.15%
Mr. Gu Da Xin	Beneficial owner	16,180,000	1.35%
Ms. Chan Choi Har, Ivy ("Ms. Chan")	Beneficial owner	2,000,000	0.17%
	Corporate interest	11,065,787 (Note (2))	0.92%
Chief Executive Officer			
Ms. Keung Wai Fun, Samantha ("Ms. Keung")	Corporate interest	682,200 (Note (3))	0.06%

Notes:

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

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

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

Save as disclosed above, as at 30 June 2011, none of the Directors or chief executive of the Company or their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which would have to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or deemed to have under such provisions of the SFO); or which were required to be recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 of the GEM Listing Rules.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTEREST IN CONTRACTS

No contract of significance in relation to the Group's business to which the Company, its subsidiaries, its fellow subsidiaries or its holding companies was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

COMPETING INTERESTS

As at 30 June 2011, none of the Directors, the substantial Shareholders nor their respective associates had an interest in any business which competes or may compete with the business of the Group.

SUBSTANTIAL SHAREHOLDER

As at 30 June 2011, the Company has not been notified by any persons (other than the Directors and chief executive of the Company) who had interests or short positions in the shares, underlying shares and debentures of the Company which were to be recorded in the register required to be kept under Section 336 of the SFO and were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

RETIREMENT BENEFITS SCHEME

Particulars of the retirement benefits scheme of the Group are set out in note 33 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of sales and purchases for the year attributable to the Group's major customers and suppliers are as follows:

	Percentage of total sales
Sales	
– the largest customer	79.95%
– five largest customers combined	91.73%

	Percentage of total purchases
Purchases	
– the largest supplier	47.30%
– five largest suppliers combined	98.32%

At no time during the year did the Directors or any of their associates, or any Shareholders (which to the knowledge of the Directors, owns more than 5% of the Company's issued share capital) had any interest in the major customers or suppliers noted above.

CONNECTED TRANSACTIONS

For the year under review, there was no connected transactions or continuing connected transactions under the GEM Listing Rules which are required to comply with any of the reporting, announcement, or independent Shareholders' approval requirements thereunder. The related party transactions set out in note 35 to the consolidated financial statements of the Company constituted connected transactions but are exempted from the reporting, announcement and independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

SECURITIES TRANSACTIONS BY DIRECTORS

For the year under review, the Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries to all the Directors, save as Mr. Gu Da Xin, Mr. Chan Shun Kuen, Eric, Ms. Liu Jiang and Mr. Yeung Mario Bercasio, 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.

CONFIRMATION OF INDEPENDENCE

Save as Ms. Liu Jiang and Mr. Yeung Mario Bercasio, the Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to relevant requirements of the GEM Listing Rules. In addition, based on the information that is publicly available to the Company, the Company was not aware of any change of circumstances which may affect the independence of the independent non-executive Directors. The Company considers the independent non-executive Directors to be independent.

CHANGE OF COMPANY SECRETARY

On 13 February 2012, Ms. Huen Lai Chun resigned and Mr. Lee Chan Wah was appointed as the company secretary of the Company.

AUDITORS

HLM & Co. had resigned as auditors of the Company with effect from 7 March 2012 and HLB Hodgson Impey Cheng have been appointed as the new auditors of the Company with effect from 7 March 2012 to fill the causal vacancy.

The consolidated financial statements for the year ended 30 June 2011 have been audited by HLB Hodgson Impey Cheng who will retire and, being eligible, offer themselves for re-appointment in the forthcoming annual general meeting.

By order of the Board
China AU Group Holdings Limited

Du Juan Hong
Chairman

Hong Kong, 8 June 2012

CORPORATE GOVERNANCE REPORT

The Stock Exchange issued the Corporate Governance Code and Corporate Governance Report (the "CG Code") 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.

For the year ended 30 June 2011, the Company has applied the principles as set out in the CG Code that are considered to be relevant to the Company and has complied with most of the code provisions of the CG Code save for certain deviations, details of which will be explained in the relevant paragraphs in this report.

The key corporate governance principles and practices of the Company are summarised as follows:

THE BOARD

Responsibilities

The Board is responsible for the leadership and control of the Company and oversees the Group's business, strategic decisions and performances and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. In practice, the Board takes responsibility for decision making in all major matters of the Company including: the approval and monitoring of all policy matters, the setting of objectives, annual budgets and overall strategies, material transaction, appointment of directors and other significant financial and operational matters. The day-to-day management, administration and operation of the Company are delegated to the senior executives. These responsibilities include the implementation of decisions of the Board, the co-ordination and direction of day-to-day operation and management of the Company in accordance with the management strategies and plans approved by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by these senior executives and the Board has the full support of them to discharge its responsibilities.

Composition

As at 30 June 2011, the Board comprises eight Directors: including three executive Directors, namely Mr. Ji He Qun ("Mr. Ji"), Ms. Chan Choi Har, Ivy ("Ms. Chan") and Mr. Gu Da Xin ("Mr. Gu"), two non-executive Directors, namely, Mr. Cheung Tsun Hin, Samson ("Mr. Cheung") and Mr. Chan Shun Kuen, Eric ("Mr. Eric Chan") and three independent non-executive Directors, namely, Mr. Lam Wai Pong ("Mr. Lam"), Mr. Chan Sze Hon ("Mr. Chan") and Ms. Liu Jiang ("Ms. Liu"). Mr. Ji is the chairman of the Board (the "Chairman"). One of the independent non-executive Directors has appropriate professional qualifications, or accounting or related financial management expertise. The number of independent non-executive Directors are more than one-third of the Board.

On 27 July 2011, Mr. Wang Xiao Fei was appointed as an executive Director.

On 10 August 2011, Mr. Gu and Ms. Liu resigned as an executive Director and independent non-executive Director respectively. Mr. Wang Shang Zhong and Mr. Cheng Hai ("Mr. Cheng") were appointed as an executive Director and independent non-executive Director respectively. Mr. Cheng was removed as an independent non-executive Director pursuant to a special resolution passed at the extraordinary general meeting held on 8 May 2012.

On 14 September 2011, Ms. Liu Xin and Ms. Zhao Jing was appointed as a non-executive Director and an independent non-executive Director respectively. On 6 October 2011, Ms. Liu Xin replaced Mr. Ji as the Chairman. On 5 March 2012, Ms. Liu Xin and Ms. Zhao Jing resigned their positions from the Board.

On 10 January 2012, Mr. Chan resigned as an independent non-executive Director.

On 12 January 2012, Mr. Leung Yiu Cho was appointed as an independent non-executive Director and resigned his position from the Board on 22 March 2012.

On 31 January 2012. Mr. Lam resigned as an independent non-executive Director.

On 13 February 2012, each of Mr Cheung and Mr. Eric Chan resigned as a non-executive Director and Mr. Yu Shu Kuen was appointed as an executive Director.

On 5 March 2012, (i) each of Mr. Tam B Ray, Billy and Mr. Chu Kin Wang, Peleus was appointed an independent non-executive Director; (ii) Mr. Du Juan Hong was appointed as the Chairman and a non-executive Director; and (iii) Mr. Lee Chan Wah, the company secretary of the Company, was appointed as an alternate Director to Mr. Wang Xiao Fei, an executive Director.

On 7 March 2012, Ms. Chan resigned as an executive Director.

Biographical details of the Chairman and other Directors are set out in the section of Profiles of Directors and Senior Management on page 11.

The Directors have distinguished themselves in their field of expertise, and have exhibited high standards of personal and professional ethics and integrity. All the Directors have given sufficient time and attention to the Company's affairs. The Board believes that the ratio of executive Directors to non-executive Directors is reasonable and adequate to provide checks and balances that safeguard the interests of the Shareholders and the Company as a whole.

The Board as a whole is responsible for the appointment of new Directors and Directors nomination for re-election by Shareholders at the annual general meeting of the Company. Under the Company's articles of association, the Board may from time to time appoint a Director either to fill a vacancy or as an addition to the Board. Any new Director appointed to fill a casual vacancy shall hold office until the first general meeting after his appointment and shall then be eligible for re-election at the next following annual general meeting. Any new Director appointed by the Board as an addition to the existing Board shall hold office until the next following annual general meeting of the Company and shall then be eligible for re-election.

Chairman and Chief Executive Officer

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

Currently, the role of the chairman of the Board is performed by Mr. Du Juan Hong who possesses essential leadership skills. The Board believes that vesting the role of the chairman in Mr. Du provides the Company with consistent leadership, facilitates effective and efficient planning and implementation of business decisions and strategies.

Following the resignation of Ms. Keung Wai Fun, Samantha as the chief executive officer of the Company with effect from 7 March 2012, the role of the chief executive officer remains outstanding. The overall management of the Company was performed by Mr. Du and all the executive Directors of the Company whom have their respective areas of profession spearheaded the Group's overall development and business strategies.

The Company is looking for a suitable candidate to fill the vacancy in order to comply with the CG Code.

Appointments, re-election and removal

Code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

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

Board Meetings

The Board regularly meets in person or through other electronic means of communication at least four times every year to determine overall strategic direction and objectives and approve quarterly, interim and annual results, and other significant matters. At least 7 business days' notice of regular Board meeting are given to all Directors, who are all given an opportunity to attend and include matters in the agenda for discussion. Apart from regular meetings, senior management from time to time provides Directors information on activities and development of the businesses of the Group. The company secretary takes detailed minutes of the meetings and keeps records of matters discussed and decision resolved at the meetings.

During the year ended 30 June 2011, 27 meetings were held. Details of the attendance of the Directors at the meetings of the Board and its respective committees are as follows:

Name of Director	Note	**Board Meeting Attended/ Eligible to attend**	**Audit Committee Attended/ Eligible to attend**	**Remuneration Committee Attended/ Eligible to attend**
Executive Directors				
Mr. Ji He Qun		22/27	N/A	N/A
Ms. Chan Choi Har, Ivy		27/27	N/A	N/A
Mr. Gu Da Xin	(1)	5/27	N/A	N/A
Non-executive Directors				
Mr. Cheung Tsun Hin, Samson		27/27	N/A	N/A
Mr. Chan Shun Kuen, Eric		27/27	N/A	N/A
Independent non-executive Directors				
Mr. Chan Sze Hon		27/27	3/3	0/0
Mr. Lam Wai Pong		26/27	3/3	0/0
Mr. Yeung Mario Bercasio	(2)	16/27	2/3	0/0
Ms. Liu Jiang	(1)	6/27	0/0	0/0

Notes:

(1) Mr. Gu Da Xin and Ms. Liu Jiang were appointed on 4 March 2011.

(2) Mr. Yeung Mario Bercasio resigned on 14 March 2011.

Remuneration Committee

A remuneration committee (the "Remuneration Committee") has been established with written terms of reference. The principal responsibilities of the Remuneration Committee include recommendation to the Board on the Group's policies and structure for all remuneration of Directors and senior management, the determination of specific remuneration packages of all executive Directors and senior managements, and reviewing and approving performance-based remuneration. As at 30 June 2011, the Remuneration Committee consists of all three Independent non-executive Directors, namely Mr.Chan Sze Hon, Mr. Lam Wai Pong and Ms. Liu Jiang.

During the year under review, the Remuneration Committee did not hold any meeting to determine the remuneration package for the executive Directors, non-executive Directors and independent non-executive Directors.

The Remuneration Committee presently comprises one independent non-executive Director, namely, Mr. Chu Kin Wang, Peleus and one executive Director, namely, Mr, Yu Shu Kuen. Following the removal of Mr. Cheng Hai, an independent non-executive Director, pursuant to a special resolution passed at the extraordinary general meeting held on 8 May 2012, the number of Remuneration Committee members fell below the requirements pursuant to Rule 5.34 of the GEM Listing Rules. The Board will make its best endeavours to seek suitable candidate for filling the vacancy on the Board for the positions of Remuneration Committee of the Company within three months from the date of Mr. Cheng's removal.

Nomination Committee

As at 30 June 2011, the Company did not establish a nomination committee (the "Nomination Committee"). The appointment of new Director(s) is therefore a matter for consideration and decision by the Board. In considering the nomination of a new Director or where vacancies on the Board exist, the Board will take into account the skills, qualification, working experience, professional knowledge, leadership and personal integrity of the candidates.

A Nomination Committee has been established by the Board with written terms of reference with effect from 27 March 2012. The members of the Nomination Committee shall comprise Directors appointed by the Board. The Board has appointed Mr. Chu Kin Wang, Peleus, Mr. Tam B Ray, Billy and Mr. Yu Shu Kuen as members of the Nomination Committee and Mr. Chu Kin Wang, Peleus has been appointed as the chairman of the Nomination Committee.

Audit Committee

The Company established an audit committee (the "Audit Committee") with written terms of reference in compliance with Rules 5.28 to 5.29 of the GEM Listing Rules. Rule 5.28 of the GEM Listing Rules requires that the audit committee must comprise a minimum of three members with a majority of independent non-executive directors and at least one member must have appropriate professional qualifications or accounting or related financial management expertise.

The main duties of the Audit Committee include the followings:

(a) To review the financial statements and reports and consider any significant or unusual items raised by the compliance officer or external auditors before submission to the board.

(b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.

(c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

As at 30 June 2011, the Audit Committee comprised three independent non-executive Directors, namely, Mr. Chan Sze Hon, Mr. Lam Wai Pong and Ms. Liu Jiang.

The Audit Committee held three meetings during the year ended 30 June 2011, to review the financial results and reports, financial reporting and compliance procedures, report on the company's internal control and risk management review and processes as well as the re-appointment of the external auditors.

As at the date of this report, the Audit Committee presently comprises two independent non-executive Directors namely, Mr. Chu Kin Wang, Peleus and Mr. Tam B Ray, Billy. Following the removal of Mr. Cheng Hai ("Mr. Cheng"), an independent non-executive Director, pursuant to a special resolution passed at the extraordinary general meeting held on 8 May 2012, the number of Audit Committee members fell below the requirements pursuant to Rule 5.28 of the GEM Listing Rules. The Board will make its best endeavours to seek suitable candidate for filling the vacancy within three months from the date of Mr. Cheng's removal. The Company's annual results for the year ended 30 June 2011 has been reviewed by the Audit Committee. In view of the issues raised by the external auditors in relation to the Group's consolidated financial statements for the year ended 30 June 2011, the Audit Committee will conduct an investigation in such issues and a review of the Group's internal control system.

Auditors' Remuneration

For the year ended 30 June 2011, the remuneration in respect of audit services provided by the auditors, HLB Hodgson Impey Cheng, amounted to HK$1,000,000.

Respective Responsibilities of Directors and Auditors

The Directors are responsible for the preparation of the financial statements, which give a true and fair view of the financial position of the Group. The auditors are responsible to form an independent opinion, based on the audit, the financial statements prepared by the Directors and report the opinion solely to the Shareholders.

Compliance with the Required Standard of Dealings in Securities Transactions by Directors

For the year under review, the Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries to all the Directors, save as Mr. Gu Da Xin, Mr. Chan Shun Kuen, Eric, Ms. Liu Jiang and Mr. Yeung Mario Bercasio, 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.

Internal Controls

The Board has overall responsibility for the internal control system of the Company. The Board has developed its systems of internal control and risk management and is also responsible for reviewing and maintaining an adequate internal control system to safeguard the interests of the Shareholders and the assets of the Company.

On 7 March 2012, the former auditors of the Company, HLM & Co. ("HLM") tendered their resignation as the external auditors of the Group. HLB Hodgson Impey Cheng ("HLB") had been appointed as the external auditors of the Group with effect from 7 March 2012 to fill the casual vacancy following the resignation of HLM and to hold office until the conclusion of the next annual general meeting of the Company. In view of the reasons for resignation as set out in the resignation letter issued by HLM to the Board on 7 March 2012, the Board has resolved on 7 March 2012 to establish a special investigation committee, comprising the two members of the audit committee and an executive Director for the purpose of, (i) investigating the issues rasied by HLM in their resignation letter; (ii) reviewing the internal control procedures and corporate governance policies of the Group; and (iii) making recommendation to the Board on appropriate actions to be taken. The special investigation committee is authorized to appoint independent professional advisers (including but not limited to accountants and legal advisers) to assist in the investigation of the issues raised by HLM in their resignation letter and to review the internal control procedures and corporate governance policies of the Group. The Company will keep Shareholders informed of the progress of the investigation by making further announcement(s).

With a view to addressing the issues by the auditors in relation to the Group's consolidated financial statements for the year ended 30 June 2011, the Board will conduct an investigation into the matters raised by them and a review of the Group's internal control system.

Shareholder Rights

The rights of Shareholders and the procedures for demanding a poll on resolutions at Shareholders' meeting are contained in the Company's articles of association. Details of such rights to demand a poll were included in the circular to the Shareholders in relation to the holding of 2010 annual general meeting and explained during the proceedings of the meeting.

The general meetings of the Company provide an opportunity for communication between the Shareholders and the Board. The chairman of the Board and the chairman of the Audit Committee attended the annual general meeting in 2010 to answer questions at the meeting.

Separate resolutions were proposed at the annual general meeting in 2010 on each substantial issue, including the election of individual directors.

INDEPENDENT AUDITORS' REPORT

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
CHINA AU GROUP HOLDINGS LIMITED
(incorporated in Cayman Islands with limited liability)

We were engaged to audit the consolidated financial statements of China AU Group Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 41 to 103, which comprise the consolidated and company statements of financial position at 30 June 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors of the Company determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements 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 paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

BASIS FOR DISCLAMER OF OPINION

(1) Scope limitation — Inventories

We were not appointed as auditors of the Company until after 30 June 2011 and thus did not observe the counting of the Group's physical inventories at the beginning and end of the year. We were unable to satisfy ourselves by alternative means concerning the inventory quantities held at 30 June 2010 and 30 June 2011 which are stated in the consolidated statement of financial position at approximately HK$450,000 and HK$975,000, respectively. As a result, we were unable to determine whether any adjustments might have been found necessary in respect of recorded and unrecorded inventories, and the elements making up the consolidated statement of comprehensive income and the consolidated statement of financial position.

(2) Scope limitation – Revenue and trade receivables

(a) Included in the consolidated statement of comprehensive income for the year ended 30 June 2011 was revenue of approximately HK$42,691,000 arising from sales to a distributor of the Group (the "**Distributor**"), revenue of approximately HK$2,107,000 arising from sales to a customer of the Group ("**Customer A**") and revenue of approximately HK$1,007,000 arising from sales to another customer of the Group ("**Customer B**"). Included in "**Trade receivables**" in the consolidated statement of financial position at 30 June 2011 was trade receivable of approximately HK$114,411,000 due from the Distributor (the "**Distributor Receivable**"), trade receivable of approximately HK$2,107,000 due from Customer A (the "**Customer A Receivable**") and trade receivable of approximately HK$1,007,000 due from Customer B (the "**Customer B Receivable**"), all of which remained outstanding up to the date of this report. Impairment losses in respect of the entire amounts of the Distributor Receivable, Customer A Receivable, Customer B Receivable at 30 June 2011 were recognised in profit or loss during the year ended 30 June 2011. We were unable to obtain sufficient appropriate audit evidence regarding the above sales to the Distributor, Customer A and Customer B and the Distributor Receivable, Customer A Receivable and Customer B Receivable because: (i) there was inadequate documentary evidence available for us to verify the identities of the Distributor, Customer A and Customer B and the delivery of the related products; (ii) we were unable to carry out any effective confirmation procedures in relation to the above sales to the Distributor, Customer A and Customer B and the Distributor Receivables, Customer A Receivable and Customer B Receivable for the purpose of our audit; (iii) there was inadequate documentary evidence available for us to satisfy ourselves as to whether the impairment losses recognised in respect of the Distributor Receivable, Customer A Receivable and Customer B Receivable were appropriate; and (iv) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the above sales transactions and the Distributor Receivable, Customer A Receivable and Customer B Receivable were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the Group's net assets at 30 June 2011, its revenue and consequently net loss for the year ended 30 June 2011, and the related disclosures thereof in the consolidated financial statements.

BASIS FOR DISCLAMER OF OPINION (Continued)

(2) Scope limitation — Revenue and trade receivables (Continued)

(b) Included in the consolidated statement of comprehensive income for the year ended 30 June 2011 was revenue of approximately HK$3,054,000 arising from sales to another customer of the Group ("**Customer C**"). Included in "**Trade receivables**" in the consolidated statement of financial position at 30 June 2011 was trade receivable of approximately HK$3,054,000 due from Customer C (the "**Customer C Receivable**"). We were unable to obtain sufficient appropriate audit evidence regarding the above sales to Customer C and the Customer C Receivable because: (i) there was inadequate documentary evidence available for us to verify the identity of Customer C and the delivery of the related products; (ii) we were unable to carry out any effective confirmation procedures in relation to the above sales to Customer C and the Customer C Receivable for the purpose of our audit; and (iii) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the above sales transactions and the Customer C Receivable were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the Group's net assets at 30 June 2011, its revenue and consequently net loss for the year ended 30 June 2011, and the related disclosures thereof in the consolidated financial statements.

(3) Scope limitation — Deposits and advances in relation to the formation of a joint venture

(a) Included in "**Deposits, prepayments and other receivables**" in the consolidated statement of financial position at 30 June 2010 and 30 June 2011 were refundable deposits totaling HK$25,000,000 (the "**JV Deposits**") which were paid by the Group to the other joint venturer during the year ended 30 June 2010 in relation to the formation of the Group's joint venture, namely 北京中成金豐醫療科技有限公司 (the "**JV**"). The results of our searches made with public registry indicated that the other joint venturer was wholly owned by the sole shareholder of the Distributor. An impairment loss in respect of the entire amount of the JV Deposits at 30 June 2011 was recognised in profit or loss during the year ended 30 June 2011.

BASIS FOR DISCLAMER OF OPINION (Continued)

(3) Scope limitation — Deposits and advances in relation to formation of a joint venture (Continued)

(b) Also included in "**Deposits, prepayments and other receivables**" in the consolidated statement of financial position at 30 June 2010 and 30 June 2011 was an advance of HK$1,000,000 paid by the Group to an entity during the year ended 30 June 2010 for the purpose of settlement of preliminary expenses to be incurred in relation to the formation of the JV (the "**JV Expense Advance**"). An impairment loss in respect of the entire amount of the JV Expense Advance was recognised in profit or loss during the year ended 30 June 2011.

We were unable to obtain sufficient appropriate audit evidence regarding the JV Deposits and the JV Expense Advance because (i) there was inadequate documentary evidence available for us to verify the manner in which the JV Deposits and the JV Expense Advance had been utilised; (ii) we were unable to carry out any effective confirmation procedures in relation to the JV Deposits and the JV Expense Advance for the purpose of our audit; (iii) there was inadequate documentary evidence available for us to satisfy ourselves as to whether the impairment losses recognised in respect of the JV Deposits and the JV Expense Advance were appropriate; and (iv) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the JV Deposits and the JV Expense Advance were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the Group's net assets at 30 June 2011, its net loss for the year ended 30 June 2011, and the related disclosures thereof in the consolidated financial statements.

(4) Scope limitation — Deposit for License Fee

Included in "**Deposits, prepayments and other receivables**" in the consolidated statements of financial position at 30 June 2010 and 30 June 2011 was a deposit for license fee of HK$4,000,000 which remained outstanding up to the date of this report (the "**License Fee Deposit**"). An impairment loss in respect of the entire amount of the License Fee Deposit at 30 June 2011 was recognised in profit or loss during the year ended 30 June 2011. We were unable to obtain sufficient appropriate audit evidence regarding the License Fee Deposit because (i) there was inadequate documentary evidence available for us to verify the identity of recipient of the License Fee Deposit; (ii) there was inadequate documentary evidence available for us to verify the manner in which the License Fee Deposit had been utilised; (iii) we were unable to carry out any effective confirmation procedures in relation to the License Fee Deposit for the purpose of our audit; (iv) there was inadequate documentary evidence available for us to satisfy ourselves as to whether the impairment loss recognised in respect of the License Fee Deposit was appropriate; and (v) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the License Fee Deposit was free from material misstatement. Any adjustments that might have been found necessary may have an effect on the Group's net assets at 30 June 2011, its net loss for the year ended 30 June 2011, and the related disclosures thereof in the consolidated financial statements.

BASIS FOR DISCLAMER OF OPINION (Continued)

(5) Scope limitation — Deposit paid to a contractor

Included in "**Deposits, prepayments and other receivables**" in the consolidated statement of financial position at 30 June 2011 was a deposit of HK$2,500,000 paid by the Group to a contractor for decoration of a training centre proposed to be operated by the Group in the name of 廣州市花都區富麗花譜職業培訓學校 (the "**Contractor Deposit**"). An impairment loss in respect of the entire amount of the Contractor Deposit at 30 June 2011 was recognised in profit or loss during the year ended 30 June 2011. We were unable to obtain sufficient appropriate audit evidence regarding the Contractor Deposit because (i) there was inadequate documentary evidence available for us to verify the identity of the contractor and the manner in which the Contractor Deposit had been utilised; (ii) we were unable to carry out any effective confirmation procedures in relation to the Contractor Deposit for the purpose of our audit; (iii) there was inadequate documentary evidence available for us to satisfy ourselves as to whether the impairment loss recognised in respect of the Contractor Deposit was appropriate; and (iv) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the Contractor Deposit was free from material misstatement. Any adjustments that might have been found necessary may have an effect on the Group's net assets at 30 June 2011, its net loss for the year ended 30 June 2011, and the related disclosures thereof in the consolidated financial statements.

(6) Scope limitation — Prepayments to suppliers

(a) Included in "**Deposits, prepayments and other receivables**" in the consolidated statement of financial position at 30 June 2011 were prepayments totaling approximately HK$12,050,000 paid by the Group to four suppliers for purchases of equipment and inventories (the "**2011 Suppliers' Prepayment**"). An impairment loss in respect of the entire amount of the 2011 Suppliers' Prepayment at 30 June 2011 was recognised in profit or loss during the year ended 30 June 2011. We were unable to obtain sufficient appropriate audit evidence regarding the 2011 Suppliers' Prepayment because (i) there was inadequate documentary evidence available for us to verify the identities of these suppliers and the manner in which the 2011 Suppliers' Prepayment had been utilised; (ii) there was no satisfactory explanation and sufficient appropriate audit evidence provided to us to explain and verify the reason for the cash cheques issued by the Group totaling HK$5,215,000 for the settlement of the 2011 Suppliers' Prepayment; (iii) there was no satisfactory explanation and sufficient appropriate audit evidence provided to us to explain and verify the reason for the cash paid by the Group totaling HK$6,835,000 being transacted through intermediates for the settlement of the 2011 Suppliers' Prepayment; (iv) we were unable to carry out any effective confirmation procedures in relation to the 2011 Suppliers' Prepayment for the purpose of our audit; (v) there was inadequate documentary evidence available for us to satisfy ourselves as to whether the impairment loss recognised in respect of the 2011 Suppliers' Prepayment was appropriate; and (vi) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the 2011 Suppliers' Prepayment were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the Group's net assets at 30 June 2011, its net loss for the year ended 30 June 2011, and the related disclosures thereof in the consolidated financial statements.

BASIS FOR DISCLAMER OF OPINION (Continued)

(6) Scope limitation — Prepayments to suppliers (Continued)

(b) Included in "**Deposits, prepayments and other receivables**" in the consolidated statement of financial position at 30 June 2010 were prepayments totaling approximately HK$27,016,000 paid by the Group to 3 suppliers (the "**2010 Suppliers**") for purchases of inventories and prepayment of packaging costs, of which an amount of approximately HK$2,068,000 and HK$1,360,000 were recognised as "**Cost of Sales**" and expensed as selling and distribution costs respectively for the year ended 30 June 2011. The Group further paid an amount of HK$550,000 to the 2010 Suppliers during the year and the balance of approximately HK$24,138,000 remained in prepayments at 30 June 2011 (the "**2010 Suppliers' Prepayments**"). Subsequent to the year ended date, an amount of approximately HK$60,000 have been settled by delivery of inventories up to the date of this report. We were unable to obtain sufficient appropriate audit evidence regarding the 2010 Suppliers' Prepayments because (i) there was inadequate documentary evidence available for us to verify the identities of the 2010 Suppliers and the manner in which the 2010 Suppliers' Prepayments had been utilised; (ii) there was no satisfactory explanation and sufficient appropriate audit evidence provided to us to explain and verify the reason for the cash cheques issued by the Group totaling HK$400,000 for the settlement of the 2010 Suppliers' Prepayments; (iii) there was no satisfactory explanation and sufficient appropriate audit evidence provided to us to explain and verify the reason for the cash paid by the Group totaling HK$150,000 being transacted through an intermediate for the settlement of the 2010 Suppliers' Prepayments; (iv) we were unable to carry out any effective confirmation procedures in relation to the 2010 Suppliers' Prepayments for the purpose of our audit; (v) there was no sufficient appropriate audit evidence to assess whether the 2010 Suppliers' Prepayments could be recovered in full or to determine the amount of impairment and (vi) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the 2010 Suppliers' Prepayments were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the Group's net assets at 30 June 2011, its net loss for the year ended 30 June 2011, and the related disclosures thereof in the consolidated financial statements.

BASIS FOR DISCLAMER OF OPINION (Continued)

(7) Scope limitation — Prepayment to a law firm

Included in "**Deposits, prepayments and other receivables**" in the consolidated statement of financial position at 30 June 2010 and 30 June 2011 was prepayment of approximately HK$1,050,000 paid by the Group to a law firm in Hong Kong (the "**Legal Fee Prepayment**") in relation to legal fees incurred on behalf of two entities which appeared to be related to the Group. An impairment loss in respect of the entire amount of the Legal Fee Prepayment was recognised in profit or loss during the year ended 30 June 2011. We were unable to obtain sufficient appropriate audit evidence regarding the Legal Fee Prepayment because (i) there was inadequate documentary evidence available for us to verify the identity of this law firm and the manner in which the Legal Fee Prepayments had been utilised; (ii) we were unable to carry out any effective confirmation procedures in relation to the Legal Fee Prepayments for the purpose of our audit; (iii) there was inadequate documentary evidence available for us to satisfy ourselves as to whether the impairment loss recognised in respect of the Legal Fee Prepayment was appropriate; and (iv) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the Legal Fee Prepayment was free from material misstatement. Any adjustments that might have been found necessary may have an effect on the Group's net assets at 30 June 2011, its net loss for the year ended 30 June 2011, and the related disclosures thereof in the consolidated financial statements.

(8) Scope limitation — Prepayments to the Distributor

Included in "**Deposits, prepayments and other receivables**" in the consolidated statement of financial position at 30 June 2010 was prepayments of approximately HK$6,200,000 paid by the Group to the Distributor (the "**Distributor Prepayment**"), of which an amount of HK$4,800,000 was expensed as selling and distribution costs for the year ended 30 June 2011 and the balance of HK$1,400,000 remained in prepayments at 30 June 2011. An impairment loss in respect of the entire amount of the Distributor Prepayment amounting to HK$1,400,000 at 30 June 2011 was recognised in profit or loss during the year ended 30 June 2011. We were unable to obtain sufficient appropriate audit evidence regarding the Distributor Prepayment because (i) there was inadequate documentary evidence available for us to verify the identity of Distributor and the manner in which the Distributor Prepayments had been utilised; (ii) we were unable to carry out any effective confirmation procedures in relation to the Distributor Prepayments for the purpose of our audit; (iii) there was inadequate documentary evidence available for us to satisfy ourselves as to whether the impairment loss recognised in respect of the Distributor Prepayment was appropriate; and (iv) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the Distributor Prepayment was free from material misstatement. Any adjustments that might have been found necessary may have an effect on the Group's net assets at 30 June 2011, its net loss for the year ended 30 June 2011, and the related disclosures thereof in the consolidated financial statements.

BASIS FOR DISCLAMER OF OPINION (Continued)

(9) Scope limitation — Loan receivable

Included in "**Deposits, prepayments and other receivables**" in the consolidated statement of financial position at 30 June 2011 was loan receivable of HK$5,000,000 due from an entity unrelated to the Group (the "**Loan**"). An impairment loss in respect of the entire amount of the Loan at 30 June 2011 was recognised in profit or loss during the year ended 30 June 2011. We were unable to obtain sufficient appropriate audit evidence regarding the Loan because (i) there was inadequate documentary evidence available for us to verify the identity of this entity; (ii) we were unable to carry out any effective confirmation procedures in relation to the Loan for the purpose of our audit; (iii) there was inadequate documentary evidence available for us to satisfy ourselves as to whether the impairment loss recognised in respect of the Loan was appropriate; and (iv) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the Loan was free from material misstatement. Any adjustments that might have been found necessary may have an effect on the Group's net assets at 30 June 2011, its net loss for the year ended 30 June 2011, and the related disclosures thereof in the consolidated financial statements.

(10) Scope limitation — Deposits from customers

Included in "**Deposits from customers**" in the consolidated statement of financial position at 30 June 2011 were deposits from customers amounting to approximately HK$4,446,000. We were unable to obtain sufficient appropriate audit evidence regarding these deposits from customers because (i) there was inadequate documentary evidence available for us to verify the validity, accuracy and completeness of these deposits; and (ii) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether these deposits from customers were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the Group's net assets at 30 June 2011, its net loss for the year ended 30 June 2011, and the related disclosures thereof in the consolidated financial statements.

BASIS FOR DISCLAMER OF OPINION (Continued)

(11) Scope limitation — Purchases from a supplier in Canada

Included in "**Cost of sales**" in the consolidated statement of comprehensive income for the year ended 30 June 2011 were purchases of finished goods of approximately HK$3,954,000 from a supplier in Canada (the "**Canadian Supplier**"). We were unable to obtain sufficient appropriate audit evidence regarding the purchase transactions with the Canadian Supplier because: (i) there was inadequate documentary evidence available for us to verify the identity of the Canadian Supplier and the delivery of related products; (ii) there was no satisfactory explanation and sufficient appropriate evidence provided to us to explain and verify the reason for the cash cheques issued by the Group totaling HK$3,954,000 for the settlement of the purchase transactions with the Canadian Supplier; (iii) we were unable to carry out any effective confirmation procedures in relation to the purchase transactions with the Canadian Supplier for the purpose of our audit; and (iv) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the above purchase transactions with the Canadian Supplier were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the Group's net assets at 30 June 2011, its net loss for the year ended 30 June 2011, and the related disclosures thereof in the consolidated financial statements.

(12) Scope limitation — Purchases from a supplier in Beijing

Included in "**Deposits, prepayments and other receivables**" in the consolidated statement of financial position at 30 June 2010 were prepayment to a supplier in Beijing (the "**Beijing Supplier**") for beauty equipment of approximately HK$12,200,000 (the "**Beijing Supplier Prepayment**") and the entire of the Beijing Supplier Prepayment was recognised as "**Cost of sales**" in the consolidated statement of comprehensive income for the year ended 30 June 2011. We were unable to obtain sufficient appropriate audit evidence regarding the purchase transactions with the Beijing Supplier because: (i) there was inadequate documentary evidence available for us to verify the identity of the Beijing Supplier and the delivery of related products; (ii) we were unable to carry out any effective confirmation procedures in relation to the purchase transactions and the Beauty Equipment Prepayment with the Beijing Supplier for the purpose of our audit; and (iii) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the above purchase transactions and the Beijing Supplier Prepayment were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the Group's net assets at 30 June 2011, its net loss for the year ended 30 June 2011, and the related disclosures thereof in the consolidated financial statements.

BASIS FOR DISCLAMER OF OPINION (Continued)

(13) Scope limitation — Deconsolidation of subsidiaries

As further explained in notes 3 and 32 to the consolidated financial statements, the directors of the Company were unable to obtain sufficient documentary information to satisfy themselves regarding the ownership and control over two entities, namely 珠海富麗花化妝品有限公司("**珠海富麗花**") and 北京富麗花譜美容有限公司("**北京富麗花**"). In addition, the directors of the Company also have not been able to access to the books and records. Both 珠海富麗花 and 北京富麗花 were included in the consolidated financial statements of the Group for the year ended 30 June 2010. Due to the insufficiency in accounting information of 珠海富麗花 and 北京富麗花, the financial statements of 珠海富麗花 and 北京富麗花 have not been consolidated in the Group's consolidated financial statements for the year ended 30 June 2011. The resulting loss on deconsolidation of approximately HK$135,000 has been recognised in profit or loss in the consolidated statement of comprehensive income for the year ended 30 June 2011.

Due to the lack of complete books and records of 珠海富麗花 and 北京富麗花 we have not been able to obtain sufficient appropriate audit evidence to verify the appropriateness of the accounting treatment of 珠海富麗花 and 北京富麗花 and the loss on the deconsolidation thereon. Any adjustments that might have been found necessary may have an effect on the Group's assets, liabilities and net loss for the year ended 30 June 2011 and the related disclosures thereof in the consolidated financial statements.

(14) Scope limitation — Events after the reporting period

We were unable to obtain sufficient appropriate audit evidence regarding the events after the reporting period because: (i) there was inadequate documentary evidence available for us to verify the occurrence, accuracy and completeness of the significant transactions or events which may have occurred between the period from 1 July 2011 to the date of this auditors' report as required under Hong Kong Standard on Auditing 560 "**Subsequent Events**" issued by the HKICPA; (ii) we were unable to carry out any effective confirmation procedures in relation to the entities involved in the events after the reporting period as disclosed in note 36 to the consolidated financial statements; and (iii) prior to the date of this report, the board of directors of the Company had resolved to establish a special investigation committee for the purpose of, inter alia, including investigating issues raised by the predecessor auditors in their resignation letter. The investigation has not been completed and no report has been issued up to the date of this report. Pending the final outcome of the investigation, there were no practical audit procedures that we could perform over significant transactions or events which occurred during the period from 1 July 2011 to the date of this auditors' report. As a result, we are unable to form an opinion as to whether all significant transactions or events which occurred during the period from 1 July 2011 to the date of this auditors' report were properly accounted for and adequately disclosed in the consolidated financial statements.

BASIS FOR DISCLAMER OF OPINION (Continued)

(15) Scope limitation — Related party disclosures

(a) The entity to whom the Group made the JV Expense Advance during the year ended 30 June 2010 (as referred to in item 3(b) above) appeared to be a related party of the Group based on the results of our searches made with public registry which indicated that the former chief executive officer of the Group was a director of the above entity. There was no satisfactory explanation and sufficient appropriate audit evidence provided to us to explain and verify as to whether the above transaction might have constituted a related party transaction for the year ended 30 June 2010.

(b) One of the entities on whose behalf the Group made the Legal Fee Prepayment during the year ended 30 June 2010 (as referred to in item 7 above) appeared to be a related party of the Group based on the results of our searches made with public registry which indicated that a director of the Company and the former chief executive officer of the Group were directors and shareholders of the above entity. There was no satisfactory explanation and sufficient appropriate audit evidence provided to us to explain and verify as to whether the above transaction might have constituted a related party transaction for the year ended 30 June 2010.

Prior to the date of this report, the board of directors of the Company had resolved to establish a special investigation committee for the purpose of, inter alia including investigating issues raised by the predecessor auditors in their resignation letter. The investigation has not been completed and no report has been issued up to the date of this report. Pending the final outcome of the investigation, there were no practical audit procedures that we could perform over significant related party transactions which may have occurred during the current and prior years. Accordingly, we were unable to form an opinion as to whether all significant related party transactions which occurred during the current and prior years were properly accounted for and adequately disclosed in the consolidated financial statements.

(16) Scope limitation — Opening balances and corresponding figures

As a result of the matters mentioned in items 1, 2(a), 3, 4, 6(b), 7, 8, 10, 12, 13 and 15 above, we were unable to obtain sufficient appropriate audit evidence regarding the opening balances and corresponding figures and there were no alternative audit procedures to satisfy ourselves as to whether the opening balances and corresponding figures were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the Group's assets and liabilities at 30 June 2010 and 2011 and its results for the years ended 30 June 2010 and 2011, and the presentation and disclosures thereof in the consolidated financial statements.

Had we been able to satisfy ourselves in respect of the matters mentioned in items (1) to (15) above, adjustments might have been found to be necessary which would have had a consequential impact on the Group's net assets at 30 June 2011 and its net loss for the year then ended and may have resulted in additional information being disclosed in the consolidated financial statements.

BASIS FOR DISCLAMER OF OPINION (Continued)

(17) Material uncertainties relating to the going concern basis

As disclosed in note 3 to the consolidated financial statements, the Group incurred a loss attributable to the owners of the Company of approximately HK$185,680,000 for the year ended 30 June 2011. The validity of the going concern assumption on which the consolidated financial statements are prepared is dependent on the favorable outcomes of (i) the repayment of the refundable deposit of HK$40,500,000 from the vendor in connection with the termination of the Group's proposed acquisition of 70% equity interest in Vertical Signal Investments Limited ("**Vertical**"), further details of which were set out in the Company's announcement dated 5 April 2012; (ii) the estimated proceeds from sales of inventories amounting to approximately HK$26,600,000 (which were purchased by the Group subsequent to 30 June 2011); and (iii) the repayment and settlement of inventory prepayments from the Group's suppliers amounting to approximately HK$34,702,000 (collectively referred to as the "**Proposed Plans**").

The validity of the going concern assumption on which the consolidated financial statements are prepared is dependent on the success of the Proposed Plans being implemented by the Group. The consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern and therefore do not include any adjustments relating to the realisation and reclassification of non-current assets that may be necessary if the Group is unable to continue as a going concern.

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 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 consolidated financial statements. However, the material uncertainty in relation to the appropriateness of the adoption of the going concern basis is so extreme that we have disclaimed our opinion.

DISCLAMER 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 consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Company and of the Group at 30 June 2011 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and as to whether the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

REPORT ON MATTERS UNDER SECTIONS 141(4) AND 141(6) OF THE HONG KONG COMPANIES ORDINANCE

In respect alone of the inability to obtain sufficient appropriate audit evidence regarding items 1 to 16 above:

— we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and

— we were unable to determine whether proper books of account had been kept.

OTHER MATTER

The consolidated financial statements of the Group for the year ended 30 June 2010 were audited by another firm of auditors who expressed an unmodified opinion on those statements on 27 September 2010.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 8 June 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2011

	Notes	2011 HK$'000	2010 HK$'000
Turnover	9	**53,400**	99,662
Cost of sales		**(37,475)**	(32,599)
Gross profit		**15,925**	67,063
Other revenue		**312**	477
Selling and distribution costs		**(8,268)**	(16,090)
Administrative expenses		**(16,805)**	(13,803)
Impairment loss recognised in respect of trade receivables	21	**(117,525)**	(111)
Impairment loss recognised in respect of deposits, prepayments and other receivables	22	**(52,135)**	—
Loss on deconsolidation of subsidiaries	32	**(135)**	—
Finance costs	11	**(7,043)**	(3,025)
(Loss) profit before tax		**(185,674)**	34,511
Income tax expense	13	**(6)**	(7,398)
(Loss) profit for the year	14	**(185,680)**	27,113
Other comprehensive income			
Exchange differences arising on translation of foreign operations		**1**	4
Release of translation reserve upon deconsolidation of subsidiaries	32	**16**	—
Other comprehensive income for the year		**17**	4
Total comprehensive (expenses) income for the year		**(185,663)**	27,117
(Loss) profit for the year attributable to:			
Owners of the Company		**(185,680)**	27,113
Total comprehensive (expenses) income for the year attributable to:			
Owners of the Company		**(185,663)**	27,117
(Loss) earnings per share (HK cents)	16		
— Basic		**(22.09)**	5.41
— Diluted		**(22.09)**	2.46

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2011

	Notes	**2011** **HK$'000**	2010 HK$'000
Non-current assets			
Intangible assets	17	**7,488**	8,424
Property, plant and equipment	18	**2,138**	2,676
		9,626	11,100
Current assets			
Inventories	20	**975**	450
Trade receivables	21	**3,158**	83,740
Deposits, prepayments and other receivables	22	**119,015**	181,114
Bank balances and cash	23	**1,436**	1,752
		124,584	267,056
Current liabilities			
Amount due to a director	25	**219**	115
Amounts due to related companies	26	**2,033**	4,963
Amount due to a related party	26	**385**	123
Deposits from customers	27	**4,446**	2,915
Accruals and other payables	24	**9,763**	3,084
Other borrowing	28	**2,000**	—
Provision for taxation		**5,594**	7,403
		24,440	18,603
Net current assets		**100,144**	248,453
Total assets less current liabilities		**109,770**	259,553
Non-current liability			
Convertible bonds	29	**—**	71,688
Net assets		**109,770**	187,865
Equity attributable to owners of the Company			
Share capital	30	**120,220**	52,220
Reserves		**(10,450)**	135,645
Total equity		**109,770**	187,865

Approved and authorised for issue by the Board of Directors on 8 June 2012 and are signed on its behalf by:

Wang Shang Zhong
Director

Yu Shu Kuen
Director

The accompanying notes form an integral part of these consolidated financial statements.

STATEMENT OF FINANCIAL POSITION

	Notes	At 30 June 2011 HK'000	At 30 June 2010 HK$'000 (Restated)	At 1 July 2009 HK$'000
Non-current asset				
Interests in subsidiaries	19	**98,312**	205,048	59,526
Current assets				
Deposits, prepayments and other receivables	22	**—**	—	—
Bank balances	23	**1,401**	110	1,050
		1,401	110	1,050
Current liabilities				
Amount due to a director	25	**82**	1	1
Accruals and other payables	24	**4,675**	1,120	936
Other borrowing	28	**2,000**	—	—
		6,757	1,121	937
Net current (liabilities) assets		**(5,356)**	(1,011)	113
Total assets less current liabilities		**92,956**	204,037	59,639
Non-current liability				
Convertible bonds	29	**—**	71,688	—
Net assets		**92,956**	132,349	59,639
Equity attributable to owners of the Company				
Share capital	30	**120,220**	52,220	47,240
Reserves	31	**(27,264)**	80,129	12,399
Total equity		**92,956**	132,349	59,639

Approved and authorised for issue by the Board of Directors on 8 June, 2012 and are signed on its behalf by:

Wang Shang Zhong
Director

Yu Shu Kuen
Director

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2011

	Share capital HK$'000	Share premium HK$'000	Merger reserve HK$'000 (Note 1)	Convertible bonds equity reserve HK$'000	Translation reserve HK$'000 (Note 2)	Accumulated losses HK$'000	Total equity HK$'000
At 1 July 2009	47,240	57,060	22,734	—	(25)	(44,882)	82,127
Profit for the year	—	—	—	—	—	27,113	27,113
Other comprehensive income for the year:							
Exchange differences arising on translation of foreign operations	—	—	—	—	4	—	4
Total comprehensive income for the year	—	—	—	—	4	27,113	27,117
Issue of shares pursuant to the placing agreement dated 19 August 2009	4,980	34,860	—	—	—	—	39,840
Transaction costs attributable to issue of new shares	—	(1,785)	—	—	—	—	(1,785)
Recognition of equity component of convertible bonds	—	—	—	40,566	—	—	40,566
At 30 June 2010 and 1 July 2010	52,220	90,135	22,734	40,566	(21)	(17,769)	187,865
Loss for the year	—	—	—	—	—	(185,680)	(185,680)
Other comprehensive income for the year:							
Exchange differences arising on translation of foreign operations	—	—	—	—	1	—	1
Release of translation reserve upon deconsolidation of subsidiaries	—	—	—	—	16	—	16
Total comprehensive expense for the year	—	—	—	—	17	(185,680)	(185,663)
Issue of shares pursuant to the subscription agreements dated 29 November 2010	8,000	22,000	—	—	—	—	30,000
Transaction costs attributable to issue of new shares	—	(1,163)	—	—	—	—	(1,163)
Issue of shares on conversion of convertible bonds	60,000	59,297	—	(40,566)	—	—	78,731
At 30 June 2011	**120,220**	**170,269**	**22,734**	**–**	**(4)**	**(203,449)**	**109,770**

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.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2011

	2011 HK$'000	2010 HK$'000
Operating activities		
(Loss) profit before tax	**(185,674)**	34,511
Adjustments for:		
Interest income	**(1)**	—
Imputed interest on convertible bonds	**7,043**	2,132
Interest expenses	**—**	893
Depreciation on property, plant and equipment	**718**	554
Loss on deconsolidation of subsidiaries	**135**	—
Loss on written off of property, plant and equipment	**—**	245
Amortisation of intangible assets	**936**	936
Impairment loss recognised in respect of trade receivables	**117,525**	111
Impairment loss recognised in respect of deposits, prepayments and other receivables	**52,135**	—
Written back of accruals and other payables	**(257)**	(476)
Written back on provision for inventories	**(10)**	—
Operating cash flows before movements in working capital	**(7,450)**	38,906
Increase in inventories	**(515)**	(280)
Increase in trade receivables	**(36,943)**	(38,820)
Decrease (increase) in deposits, prepayments and other receivables	**10,065**	(149,238)
Increase in accruals and other payables	**6,924**	906
Increase in amount due to a director	**104**	107
(Decrease) increase in amounts due to related companies	**(2,930)**	2,558
Increase in amount due to a related party	**262**	75
Increase in deposits from customers	**1,531**	1,190
Cash used in operating activities	**(28,952)**	(144,596)
Interest received	**1**	—
Interest paid	**—**	(893)
Tax paid	**(1,810)**	—
Net cash used in operating activities	**(30,761)**	(145,489)
Investing activities		
Net cash outflow from deconsolidation of a subsidiary	**(213)**	—
Purchases of property, plant and equipment	**(180)**	(2,057)
Net cash used in investing activities	**(393)**	(2,057)
Financing activities		
Net proceed from borrowing	**2,000**	—
Proceed from issue of convertible bonds	**—**	110,122
Proceed from issue of new shares	**30,000**	39,840
Payment of transaction costs attributable to issue of shares	**(1,163)**	(1,785)
Net cash generated from financing activities	**30,837**	148,177
Net (decrease) increase in cash and cash equivalents	**(317)**	631
Cash and cash equivalents at 1 July	**1,752**	1,117
Effect of foreign exchange rate changes	**1**	4
Cash and cash equivalents at 30 June	**1,436**	1,752
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**1,436**	1,752

The accompany notes form an integral part of these financial statements.

1. GENERAL INFORMATION

The Company is incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and the principal place of business of the Company are disclosed in the corporate information to the annual report.

The consolidated and company financial statements are presented in units of thousands of Hong Kong dollars (HK$'000) unless otherwise stated, which is the same as the functional currency of the Group.

The Company's principal activity is investment holding and the principal activities of its principal subsidiaries are disclosed in note 37.

2. PRIOR YEAR ADJUSTMENTS

The Company

In preparing the current's financial statements, the following comparative financial information has been restated:

At 30 June 2010, included in the "Interests in subsidiaries" in the statement of financial position of the Company were refundable deposit for the acquisition of 70% equity interest of Vertical Signal Investments Limited ("Vertical") totaling HK$45,000,000 and an advance amounted to HK$1,000,000 to an entity for the purpose of settlement of preliminary expenses to be incurred in relation to the formation of a joint venture, namely 北京中成金豐醫療科技有限公司 (the "JV Advance"). However, the sales and purchase agreement of the acquisition of Vertical was entered into by Blu Spa (Hong Kong) Limited ("BSHK"), a wholly owned subsidiary of the Company and both the deposits for acquisition of Vertical and the JV Advance were paid by BSHK. As a result, these deposits for acquisition of Vertical and the JV Advance were wrongly recorded in the books and records of the Company and prior year adjustments have been made retrospectively by restating the corresponding figures of the Company's financial statements for the year ended 30 June 2011.

At 30 June 2010, the total effects of the prior year adjustments were stated below:

- Interests in subsidiaries was understated by HK$46,000,000
- Deposits was overstated by HK$46,000,000

2. PRIOR YEAR ADJUSTMENTS (Continued)

The Company

Effects of the prior year adjustments on the statement of financial position:

	At 30 June 2010		
	Originally Stated	Adjustment	After prior year adjustments stated
	HK$'000	*HK$'000*	*HK$'000*
Interests in subsidiaries	159,048	46,000	205,048
Deposits	46,000	(46,000)	—

The deposits for acquisition of Vertical and the JV Advance incurred during the year ended 30 June 2010. Therefore, the opening balances of the Company at 1 July 2009 would not be affected and no restatement was made.

3. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term that includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountant (the "HKICPA"), and accounting principles generally accepted in Hong Kong. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") and the disclosure requirements of the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values.

Certain comparative figures have been reclassified to conform with current year's presentation.

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

Going Concern

These consolidated financial statements have been prepared on a going concern basis notwithstanding that the Group incurred a loss attributable to owners of the Company of approximately HK$185,680,000 for the year ended 30 June 2011 which indicate the existence of material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. As disclosed in note 36(g), (h) and (i), the Directors of the Company have taken the following steps to generate sufficient funds to meet the Group's working capital and financial obligations when they fall due: (1) the repayment of the refundable deposit of HK$40,500,000 from the vendor in connection with the termination of the Group's proposed acquisition of 70% equity interest in Vertical Signal Investments Limited ("Vertical"), further details of which were set out in the Company's announcement dated 5 April 2012; (2) the estimated proceeds from sales of inventories amounting to approximately HK$26,600,000 (which were purchased by the Group subsequent to 30 June 2011); and (3) the repayment and settlement of inventory prepayments from the Group's suppliers amounting to approximately HK$34,702,000 (collectively referred to as the "Proposed Plans").

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

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

The applicability of the going concern basis depends on the outcome of the Proposed Plans which the eventual outcome is uncertain and the Group's ability to generate sufficient funds to meet its future working capital requirements and financial obligations when they fall due. These consolidated financial statements do not include any adjustments that may result if the Proposed Plans could not proceed successfully. If the Proposed Plans could not proceed successfully and the going concern basis was not to be appropriate, adjustments would have to be made to the financial statements to reduce the value of the assets of the Group to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively.

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

Deconsolidation of the PRC entities

珠海富麗花化妝品有限公司(“珠海富麗花”) and 北京富麗花譜美容有限公司(“北京富麗花”) were entities incorporated in the People’s Republic of China (the “PRC”) of which its equity interests are held by individuals who claim to hold on behalf of the Group under the declaration of trusts (the “Trusts”). The results, assets and liabilities of 珠海富麗花 and 北京富麗花 were included in the consolidated financial statements of the Group for the year ended 30 June 2010 and in the previous financial years.

For the year ended 30 June 2011, the majority of current Directors of the Company, who were appointed subsequent to 30 June 2011, are of the opinion that due to the nature of the Trusts and the current management was not able to obtain sufficient information including but not limited to the legal documents and therefore not able to satisfy themselves regarding the ownership and control over 珠海富麗花 and 北京富麗花. Accordingly, the financial statements of 珠海富麗花 and 北京富麗花 were not included in the consolidated financial statements of the Group for the year ended 30 June 2011.

In addition, the current management of the Company was not able to contact the accounting personnel of 珠海富麗花 and accordingly, was not able to access to the books and records of 珠海富麗花. In view of the lack of sufficient evidence and relevant personnel support, the Directors of the Company have also not been able to satisfy themselves regarding the completeness and accuracy of the books and records of 珠海富麗花 and determine that all transactions entered into by 珠海富麗花 for the year ended 30 June 2011 have been properly reflected. Any adjustment arising from the matter described above would have a consequential effect on the Group’s net loss for the year ended 30 June 2011 and related disclosures thereof in the consolidated financial statements.

The details of the calculation of the gain (loss) on deconsolidation of 珠海富麗花 and 北京富麗花 were set out in note 32 to the consolidated financial statements.

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

In the current year, the Group has applied, for the first time, the following new and revised standards and interpretation (collectively referred to as the "new and revised HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning on 1 July 2010. A summary of the new and revised HKFRS adopted by the Group is set out as follows:

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[1]
HKFRS 1 (Amendments)	Additional Exemption for First-time Adopters
HKFRS 1 (Amendments)	Limited Exemption from Comparative
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKAS 32 (Amendments)	Amendments to HKAS 32 Financial Instruments: Presentation — Classification of Right issues
HK (IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments
HK Interpretation 5	Presentation of Financial Statements — Classification by the Borrow of a term loan that contains a Repayment on Demand Clause

1 Amendments that are effective for annual periods beginning on or after 1 July 2010

The application of new and revised HKFRSs in the current year has had no material effect on the amounts reported in these financial statements and/or disclosures set out in these financial statements.

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

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

HKFRSs (Amendments)	Improvement to HKFRSs issued in 2010[1]
HKFRS 1 (Amendments)	Disclosures — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopter[2]
HKFRS 7 (Amendments)	Disclosures — Transfer of Financial Assets[2]
HKFRS 7 (Amendments)	Disclosures — Offsetting Financials Assets and Financial Liabilities[5]
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosure[7]
HKFRS 9	Financial Instruments[7]
HKFRS 10	Consolidated Financial Statements[5]
HKFRS 11	Joint Arrangements[5]
HKFRS 12	Disclosure of Involvement with Other Entities[5]
HKFRS 13	Fair Value Measurement[5]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[4]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[3]
HKAS 19 (Revised 2011)	Employee Benefits[5]
HKAS 24 (Revised)	Related party Disclosures[1]
HKAS 27 (Revised 2011)	Separate Financial Statements[5]
HKAS 28 (Revised 2011)	Investment in Associates and Joint Ventures[5]
HKAS 32 (Amendments)	Presentation — Offsetting Financial Assets and Financial Liabilities[6]
HK(IFRIC) — Int 20	Stripping costs in the Production Phase of a Surface Mine[5]

[1] Effective for annual periods beginning on or after 1 January 2011
[2] Effective for annual periods beginning on or after 1 July 2011
[3] Effective for annual periods beginning on or after 1 January 2012
[4] Effective for annual periods beginning on or after 1 July 2012
[5] Effective for annual periods beginning on or after 1 January 2013
[6] Effective for annual periods beginning on or after 1 January 2014
[7] Effective for annual periods beginning on or after 1 January 2015

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

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 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 results in changes in the future as to how the results and financial position are prepared and presented.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies are set out below.

(a) Basics of consolidation

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments within the measurement period (a maximum of 12 months from the acquisition date). Cost also includes direct attributable costs of investment.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basics of consolidation (Continued)

Subsidiaries (Continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated.

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset.

In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is determined on the basis of anticipated sale proceeds less estimated cost to completion and selling expenses. Provision is made for inventories when they became obsolete.

(c) Impairment losses

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Type	Basis
Plant and machinery	20%
Leasehold improvement	20%
Furniture, fixtures and equipment	20%
Motor vehicles	20%

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Property, plant and equipment (Continued)

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the year in which the item is derecognised.

(e) Intangible assets

Trademark
Trademark is stated at cost less accumulated amortisation and less any identified impairment loss. The amortisation period adopted for intangible assets is 20 years.

(f) Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets
The Group's financial assets are classified into loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of such category of financial assets are set out below.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments (Continued)

Financial assets (Continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premium or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than financial assets designated as at fair value through profit or loss.

Loans and receivables

Loans and receivables (including trade receivables, deposits and other receivables and bank balances and cash) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost using the effective interest method, less any identified impairment losses.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

(i) significant financial difficulty of the issuer or counterparty;

(ii) default or delinquency in interest or principal payments; or

(iii) it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the asset of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments (Continued)

Financial liabilities and equity (Continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums of discounts) through the expected life of the financial liability, or where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than financial liabilities classified as at fair value through profit or loss.

Other financial liabilities

Other financial liabilities (including deposits from customers, accruals and other payable, other borrowing, amounts due to a director, amount due to related companies/a related party) are subsequently measured at amortised cost, using the effective interest method.

Convertible bonds

Convertible bonds issued by the Company that contain both liability and equity components are classified separately into respective liability and equity components on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's owed equity instruments is classified as an equity instrument. On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible bonds and the fair value assigned to the liability component, representing the conversion option for the holder to convert the bonds into equity, is included in equity as convertible bonds — equity reserve.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The equity component, representing by the option to convert the liability component into ordinary shares of the Company, will remain in convertible bonds — equity reserve until the embedded option is exercised (in which case the balance stated in convertible bonds — equity reserve will be transferred to share capital and share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible bonds — equity reserve will be released to the retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments (Continued)

Convertible bonds (Continued)

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to convertible bonds — equity reserve. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the contracted rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in other comprehensive income is recognised in profit or loss.

For financial liabilities, they are removed from consolidated statement of financial position when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenue from service income is recognised when services are provided. Payments that are related to service not yet rendered are shown as deposits from customers in the consolidated financial statements.

Revenue from the sales of beauty products and beauty equipment is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the beauty products and beauty equipment are delivered to customers. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

Royalty fee income are recognised on an accrual basis in accordance with the terms of the relevant agreements in related to the sales of goods when goods are delivered and title has passed.

Revenue from interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

(h) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxation profit differs from profit as reported in consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Taxation (Continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly to equity, in which case the amount and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same tax authority and the entity intends to settle its current tax assets and liabilities on a net basis.

(i) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

(j) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Foreign currencies (Continued)

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in consolidated statement of comprehensive income in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income in the consolidated financial statements and will be reclassified from equity to profit or loss on disposal of the foreign operation. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are recognised directly in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into presentation currency of the Group (i.e. Hong Kong dollars) using the current rate prevailing at the end of the reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of the translation reserve. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are reattributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(l) Retirement benefits costs

Payment to defined contribution retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

(m) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(n) Related parties

A party is considered to be related to the Group if:

(i) the party, directly or indirectly through one or more intermediaries, (a) controls, is controlled by, or is under common control with, the Group; (b) has an interest in the Group that gives it significant influence over the Group; or (c) has joint control over the Group;
(ii) the party is an associate;
(iii) the party is a jointly-controlled entity;
(iv) the party is a member of the key management personnel of the Group or its parent;
(v) the party is a close member of the family of any individual referred to in (i) or (iv);
(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or
(vii) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Contingent liabilities and assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. Contingent assets are not recognised but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

6. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 5, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgments in applying accounting policies

The followings are the critical judgments, apart from those involving estimations, that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Useful lives and depreciation of property, plant and equipment

The Group determines the estimated useful lives and related depreciation charges of its property, plant and equipment. These estimates are based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The Group will increase the depreciation charge where useful lives are less than previously estimated lives, and will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation charge in the future periods.

6. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Critical judgments in applying accounting policies (Continued)

Impairment loss of trade receivables

The policy for impairment loss recognised in respect of trade receivables of the Group is based on the evaluation of collectability and ageing analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Impairment loss of intangible assets

The Group performs annual tests on whether there has been impairment of intangible assets in accordance with the accounting policy stated in Note 5(e). The recoverable amounts are determined based on value-in-use calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the business, pre-tax discount rates, and other assumptions underlying the value-in-use calculations.

Net realised value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and variable selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycle. The directors reassess the estimations at the end of each reporting period.

7. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

The Group

	2011	2010
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables (including bank balances and cash)	**51,608**	162,249
Financial liabilities		
Amortised cost	**18,846**	82,888

7. FINANCIAL INSTRUMENTS (Continued)

(a) Categories of financial instruments (Continued)

The Company

	2011	2010
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables (including bank balances and cash)	**1,401**	110
Financial liabilities		
Amortised cost	**6,757**	72,809

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, deposits and other receivables, bank balances and cash, deposits from customers, accruals and other payables, other borrowing, amount due to directors/a related party/related companies and convertible bonds. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the polices on how to mitigate these risks are set out below. The Management manages and monitors these exposures closely to ensure appropriate measures are implemented on a timely and effective manner.

There has been no change to the Group's risk exposure relating to financial instruments or the manner in which it manages and measures the risks.

Market risk

(i) Currency risk

The Group is exposed to foreign exchange risk arising primarily from fee receivables denominated in Renminbi ("RMB") and Taiwan dollar ("TWD"). Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations which are denominated in a currency that is not the entity's functional currency. The Group currently does not have a foreign currency hedging policy in respect of foreign current assets and liabilities. The Group will monitor its foreign exchange exposure closely and will consider hedging significant foreign currency exposure should the need arise.

7. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) Currency risk (Continued)

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting period are as follows:

	2011 HK$'000	2010 HK$'000
Assets		
RMB	**27,192**	27,016
TWD	**46,004**	46,916

Sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in the Hong Kong dollars ("HK$") against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes outstanding foreign currency denominated monetary items, and adjusts their translation at the period end for a 5% change in foreign currency rates.

A positive number below indicates an increase in profit where the relevant currencies strengthen 5% against HK$. For a 5% weakening of the relevant currencies against HK$, there would be an equal and opposite impact on the profit and the balances below would be negative.

	Profit and loss	
	2011 HK$'000	2010 HK$'000
Impact of		
RMB	**1,360**	1,351
TWD	**2,300**	2,346

There would be no material impact on to the Group's other components of equity for the years ended 30 June 2011 and 2010.

The net effect of the Group's sensitivity to foreign currency risk was attributable to the Group's monetary assets and liabilities with exposure to foreign currency risk at the reporting period.

7. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group has no significant interest bearing assets except bank balance and cash. Details of the financial instruments are disclosed in respective notes. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposures should the need arise.

Sensitivity analysis

If floating rates had been 5% higher/lower, the Group's:

- profit before tax for the year ended 30 June 2011 would not increase/decrease by approximately HK$8,400 (2010: HK$8,758).

- no impact to the other component of equity for the year ended 30 June 2011 and 2010.

Credit risk

As at 30 June 2011, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties provided by the Group is arising from trade receivables, deposits and other receivables.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors of the Company considers that the Group's credit risk is significant reduced.

7. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk (Continued)

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates.

The Group has concentration of credit risk as 94.68% (2010: 99.63%) of the total trade receivables was due from the Group's sole distributor in the PRC, 深圳市美麗概念貿易有限公司（the "Distributor"）. During the year ended 30 June 2011, an impairment loss was recognised in respect of the entire carrying amount of the trade receivables due from the Distributor (note 21).

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the Group's funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities, convertible bonds and borrowing facilities, by continuously monitoring forecast and actual cash flows, carrying out fund raising activities and matching the maturity profiles of financial assets and liabilities. The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

7. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

The Group

	Weighted average effective interest rate	Less than 1 year HK$'000	Between 1 and 5 years HK$'000	Over 5 years HK$'000	Total un-discounted cash flow HK$'000	Total carrying amount HK$'000
At 30 June 2011						
Deposits from customers	–	**4,446**	–	–	**4,446**	**4,446**
Accruals and other payables	–	**9,763**	–	–	**9,763**	**9,763**
Other borrowing	–	**2,000**	–	–	**2,000**	**2,000**
Amount due to a director	–	**219**	–	–	**219**	**219**
Amounts due to related companies	–	**2,033**	–	–	**2,033**	**2,033**
Amount due to a related party	–	**385**	–	–	**385**	**385**
Convertible bonds	–	–	–	–	–	–
		18,846	–	–	**18,846**	**18,846**
At 30 June 2010						
Deposits from customers	—	2,915	—	—	2,915	2,915
Accruals and other payables	—	3,084	—	—	3,084	3,084
Other borrowing	—	—	—	—	—	—
Amount due to a director	—	115	—	—	115	115
Amounts due to a related company	—	4,963	—	—	4,963	4,963
Amount due to a related party	—	123	—	—	123	123
Convertible bonds	17.75%	—	114,000	—	114,000	71,688
		11,200	114,000	—	125,200	82,888

The Company

	Weighted average effective interest rate	Less than 1 year HK$'000	Between 1 and 5 years HK$'000	Over 5 years HK$'000	Total un-discounted cash flow HK$'000	Total carrying amount HK$'000
At 30 June 2011						
Accruals and other payables	–	**4,675**	–	–	**4,675**	**4,675**
Other borrowing	–	**2,000**	–	–	**2,000**	**2,000**
Amount due to a director	–	**82**	–	–	**82**	**82**
		6,757	–	–	**6,757**	**6,757**
At 30 June 2010						
Accruals and other payables	—	1,120	—	—	1,120	1,120
Amount due to a director	—	1	—	—	1	1
Convertible bonds	17.75%	—	114,000	—	114,000	71,688
		1,121	114,000	—	115,121	72,809

7. FINANCIAL INSTRUMENTS (Continued)

7. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined as follows:

- the fair values of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively;

- the fair values of derivative instruments are determined based on the quoted prices provided by the securities' broker; and

- the fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using the estimated future cash flows and the current market rate of return.

The Directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded in the consolidated financial statements approximate to their fair values.

(d) Fair value measurements recognised in the consolidated statement of financial position

The carrying value of financial instruments are measured at fair value at 30 June 2011 across the three levels of the fair value hierarchy defined in HKFRS 7 Financial Instruments: Disclosures, with the fair values of each financial instrument categorised in its entirety based on the lowest level of input that fair value measurement.

The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments.

- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market date.

- Level 3 (lowest level): fair value measured using valuation techniques in which any significant input is not based on observable market data.

At 30 June 2011, the Group had no financial instruments carried at fair value which are based on the Level 1, Level 2 and Level 3 of the fair value hierarchy. There were no transfers of fair value measurement between Level 1 and Level 2 and no transfers into or out of Level 3 (2010: Nil).

8. CAPITAL RISK MANAGEMENT

The primary objectives of the Group's capital management are to safeguard the entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimization of the debt and equity balance.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or raise and repay debts. The Group's capital management objective, policies or processes were unchanged during the year 2011 and 2010.

The Directors of Company consider the cost of capital and the risks associated with each class of capital to monitors is capital structure on the basis of a gearing ratio. The Group has a target gearing ratio not higher than 20%-25%, determined as the proportion of net debt to equity. This ratio expressed by as a percentage of net borrowings over the total equity. Net borrowings are calculated as total borrowings (including current and non-current borrowings as shown in the consolidated statement of financial position) less cash and cash equivalents.

The gearing ratio as at 30 June 2011 and 2010 were as follows:

	2011 ***HK$'000***	2010 *HK$'000*
Borrowings (note 28)	**2,000**	—
Convertible bonds (note 29)	**—**	71,688
Total borrowings	**2,000**	71,688
Cash and cash equivalents (Note (1))	**(1,436)**	(1,752)
Net debt	**564**	69,936
Equity attributable to owners of the Company	**109,770**	187,865
Net debt to total equity ratio	**0.5%**	37.2%

Note:

1. Cash and cash equivalents comprise bank balances and cash on hand at the end of the reporting period.

9. TURNOVER

	2011	2010
	HK$'000	*HK$'000*
Sales of beauty equipment	**35,320**	76,000
Sales of beauty products	**10,602**	10,463
Royalty fee income	**3,836**	8,588
Therapy services	**3,142**	2,611
Provision of training courses	**500**	2,000
	53,400	99,662

10. SEGMENT INFORMATION

Information reported to the managing Director of the Company, 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) Royalty fee income

(iv) Therapy services

(v) Provision of training courses

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

10. SEGMENT INFORMATION (Continued)

Segment revenue and results

For the year ended 30 June 2011

OPERATING SEGMENT	Sales of beauty equipment *HK$'000*	Sales of beauty products *HK$'000*	Royalty fee income *HK$'000*	Therapy services *HK$'000*	Provision of training courses *HK$'000*	Consolidated *HK$'000*
REVENUE						
Revenue from external customers	**35,320**	**10,602**	**3,836**	**3,142**	**500**	**53,400**
RESULTS						
Segment profit (loss) for reportable segment	**11,686**	**(3,987)**	**3,339**	**(5,738)**	**435**	**5,735**
Other revenue						**312**
Unallocated administrative expenses						**(14,883)**
Finance costs						**(7,043)**
Loss before tax						**(15,879)**
Income tax expense						**(6)**
Core loss for the year						**(15,885)**
MAJOR NON-CASH ITEMS						
— Impairment loss recognised in respect of trade receivables						**(117,525)**
— Impairment loss recognised in respect of deposits, prepayments and other receivables						**(52,135)**
— Loss on deconsolidation of subsidiaries						**(135)**
						(185,680)

10. SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

For the year ended 30 June 2010

OPERATING SEGMENT	Sales of beauty equipment HK$'000	Sales of beauty products HK$'000	Royalty fee income HK$'000	Therapy services HK$'000	Provision of training courses HK$'000	Consolidated HK$'000
REVENUE						
Revenue from external customers	76,000	10,463	8,588	2,611	2,000	99,662
RESULTS						
Segment profit (loss) for reportable segment	46,855	(1,965)	7,165	(4,755)	1,669	48,969
Other revenue						477
Unallocated administrative expenses						(11,799)
Finance costs						(3,025)
Profit before tax						34,622
Income tax expense						(7,398)
Core profit for the year						27,224
MAJOR NON-CASH ITEMS						
— Impairment loss recognised in respect of trade receivables						(111)
						27,113

10. SEGMENT INFORMATION (Continued)

Segment assets and liabilities

OPERATING SEGMENT	Sales of beauty equipment HK$'000	Sales of beauty products HK$'000	Royalty fee income HK$'000	Therapy services HK$'000	Provision of training courses HK$'000	Consolidated HK$'000
2011						
ASSETS						
Segment assets	**46,004**	**27,702**	**–**	**561**	**–**	**74,267**
Unallocated corporate assets						**59,943**
Consolidated total assets						**134,210**
LIABILITIES						
Segment liabilities	**–**	**(2,210)**	**–**	**(4,269)**	**–**	**(6,479)**
Unallocated corporate liabilities						**(17,961)**
Consolidated total liabilities						**(24,440)**
Other segment information:						
Additions of property, plant and equipment						**180**
Depreciation and amortisation						**1,654**

10. SEGMENT INFORMATION (Continued)

Segment assets and liabilities (Continued)

OPERATING SEGMENT	Sales of beauty equipment HK$'000	Sales of beauty products HK$'000	Royalty fee income HK$'000	Therapy services HK$'000	Provision of training courses HK$'000	Consolidated HK$'000
2010						
ASSETS						
Segment assets	125,038	40,465	12,699	—	47,000	225,202
Unallocated corporate assets						52,954
Consolidated total assets						278,156
LIABILITIES						
Segment liabilities	—	(4,963)	—	(2,915)	—	(7,878)
Unallocated corporate liabilities						(82,413)
Consolidated total liabilities						(90,291)
Other segment information:						
Additions of property, plant and equipment						2,057
Depreciation and amortisation						1,490

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

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

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

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

10. SEGMENT INFORMATION (Continued)

Geographical information

The Group mainly operates in Hong Kong and the PRC. The Group's revenue from external customers and information about its non-current assets by geographical location (excluding trademark) are detailed below:

	Revenue from external customers		Non-current assets	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**4,235**	3,195	**2,138**	2,676
The PRC	**49,165**	96,467	**—**	—
	53,400	99,662	**2,138**	2,676

Information about major customer

Revenue arising from sales of beauty equipment, sales of beauty products, royalty fee income and provision of training courses of approximately HK$42,691,000 (2010: HK$96,467,000) are arose from sales to the Group's largest customer.

11. FINANCE COSTS

	2011	2010
	HK$'000	*HK$'000*
Interest expenses on loan from financial institution	**—**	893
Imputed interest on convertible bonds (note 29)	**7,043**	2,132
	7,043	3,025

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emolument paid or payable to each of the seven (2010: six) Directors of the Company were as follows:

	2011				2010			
	Fee HK$'000	Salaries and other emoluments HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000	Fee HK$'000	Salaries and other emoluments HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
Executive Directors								
Chan Choi Har, Ivy[(1)]	120	1,200	13	1,333	120	1,200	12	1,332
Ji He Qun	–	600	–	600	—	—	—	—
Gu Da Xin[(2)]	–	–	–	–	—	—	—	—
Cheung Tsun Hin, Samson[(3)]	60	180	6	246	120	360	12	492
Non-executive Directors								
Chan Shun Kuen, Eric[(4)]	120	–	–	120	120	—	—	120
Cheung Tsun Hin, Samson[(3)]	60	193	7	260	—	—	—	—
Independent Non-executive Directors								
Yeung Mario Bercasio[(6)]	90	–	–	90	120	—	—	120
Lam Wai Pong[(7)]	120	–	–	120	120	—	—	120
Chan Sze Hon[(8)]	120	–	–	120	120	—	—	120
Liu Jiang[(5)]	–	–	–	–	—	—	—	—
	690	2,173	26	2,889	720	1,560	24	2,304

(1) Ms. Chan Choi Har, Ivy resigned on 7 March 2012
(2) Mr. Gu Da Xin was appointed on 4 March 2011 and resigned on 10 August 2011
(3) Mr. Cheung Tsun Hin, Samson was re-designated from executive Director to non-executive Director on 24 December 2010 and resigned on 13 February 2012
(4) Mr. Chan Shun Kuen, Eric resigned on 13 February 2012
(5) Mr. Liu Jiang was appointed on 4 March 2011 and resigned on 10 August 2011
(6) Mr Yeung Mario Bercasio resigned on 14 March 2011
(7) Mr. Lam Wai Pong resigned on 31 January 2012
(8) Mr. Chan Sze Hon resigned on 10 January 2012

During the year ended 30 June 2011, no Directors of the Company had waived any fees or agreed to waive any fees or emoluments, and there were no amount paid or payable to the Directors of the Company as an inducement to join or upon joining the Company.

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, two (2010: two) Directors of the Company whose emoluments were set out in note 12(a). The emoluments of the remaining three (2010: three) individuals for the years ended 30 June 2011 and 30 June 2010 were as follows:

	2011	2010
	HK$'000	*HK$'000*
Salaries and other benefits	**1,993**	3,747
Retirement benefit scheme contributions	**39**	61
	2,032	3,808

Their emoluments were within the following bands:

	Number of employees	
	2011	2010
Nil — HK$1,000,000	**2**	1
HK$1,000,001 — HK$1,500,000	**1**	2
	3	3

During the year ended 30 June 2011 and 2010, no emoluments were paid by the Group to the five highest paid individuals, or Directors of the Company, as an inducement to join or upon joining the Group or as compensation for loss of office.

13. INCOME TAX EXPENSE

	2011	2010
	HK$'000	*HK$'000*
The charge comprises of:		
Current tax		
Hong Kong	**—**	6,906
PRC	**6**	—
Under-provision in prior years	**—**	492
	6	7,398

Hong Kong Profits Tax is calculated at 16.5% (2010: 16.5%) of the estimated assessable profits for the year. The PRC subsidiaries are subject to the PRC Enterprise Income Tax at 25% for both years. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

13. INCOME TAX EXPENSE (Continued)

The charge for the year can be reconciled to the (loss) profit before taxation per the consolidated statement of comprehensive income as follows:

	2011 **HK$'000**	2010 HK$'000
(Loss) profit before taxation	**(185,674)**	34,511
Tax at the Hong Kong Profits Tax rate of 16.5% (2010: 16.5%)	**(30,636)**	5,694
Tax effect of non-deductible expenses	**28,138**	1,280
Tax effect of non-taxable revenues	**(48)**	—
Tax effect on temporary differences arising from accelerated depreciation allowance not recognised	**(77)**	(68)
Tax effect of tax loss not recognised	**2,621**	—
Effect of different tax rates of subsidiaries operating in other jurisdictions	**8**	—
Under-provision in prior years	**—**	492
Tax charge for the year	**6**	7,398

At the end of the reporting period, the Group has unused estimated tax losses of approximately HK$27,530,000 (2010: HK$16,064,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the estimated tax losses due to the unpredictability of future profit streams.

14. (LOSS) PROFIT FOR THE YEAR

	2011 **HK$'000**	2010 HK$'000
(Loss) profit for the year has been arrived at after (charging) crediting:		
Directors' remuneration	**(2,889)**	(2,304)
Other staff costs	**(10,094)**	(8,015)
Retirement benefit scheme contributions	**(423)**	(284)
Total staff costs	**(13,406)**	(10,603)
Amortisation of intangible assets	**(936)**	(936)
Auditors' remuneration	**(1,000)**	(200)
Depreciation	**(718)**	(554)
Written off of property, plant and equipment	**—**	(245)
Impairment loss recognised in respect of trade receivables (note 21)	**(117,525)**	(111)
Impairment loss recognised in respect of deposits, prepayments and other receivables (note 22)	**(52,135)**	—
Loss on deconsolidation of subsidiaries (note 32)	**(135)**	—
Operating lease payment	**(6,990)**	(5,956)
Bank interest income	**1**	—
Written back of accruals and other payables	**257**	476
Written back on provision for inventories (note 20)	**10**	—

15. DIVIDENDS

The Directors of the Company do not recommend any payment of final dividends for the year ended 30 June 2011 and 2010.

16. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share attributable to owners of the Company is based on the following data:

	2011	2010
	HK$'000	*HK$'000*
(Loss) earnings for the purpose of basic and diluted (loss) earnings per share:		
(Loss) profit for the year attributable to owners of the Company	**(185,680)**	27,113
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	**840,734,246**	501,188,494
Adjustment for assumed exercise of convertible bonds		600,000,000
		1,101,188,494

Diluted loss per share for the year ended 30 June 2011 was the same as the basic loss per share as there was no diluting event during the year.

Diluted earnings per share for the year ended 30 June 2010 assumed the conversion of all the outstanding convertible bonds of the Company, amounted to a maximum of 600,000,000 shares.

17. INTANGIBLE ASSETS

The Group	**Total**
	HK$'000
	Trademark
Cost	
At 1 July 2009, 30 June 2010 and 30 June 2011	18,720
Amortisation	
At 1 July 2009	9,360
Amortisation for the year	936
At 30 June 2010 and 1 July 2010	10,296
Amortisation for the year	936
At 30 June 2011	11,232
Carrying amounts	
At 30 June 2011	**7,488**
At 30 June 2010	8,424

The amortisation expense has been included in the administrative expense to the consolidated statement of comprehensive income.

The above intangible assets have definite useful lives. Such intangible assets are amortised on a straight-line basis over 20 years.

18. PROPERTY, PLANT AND EQUIPMENT

The Group	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 2009	609	999	568	246	2,422
Additions	58	1,663	336	—	2,057
Written off	—	(560)	(28)	—	(588)
At 30 June 2010 and 1 July 2010	667	2,102	876	246	3,891
Additions	43	137	—	—	180
At 30 June 2011	**710**	**2,239**	**876**	**246**	**4,071**
Depreciation					
At 1 July 2009	169	354	444	37	1,004
Charge for the year	130	296	79	49	554
Eliminated on written off	—	(333)	(10)	—	(343)
At 30 June 2010 and 1 July 2010	299	317	513	86	1,215
Charge for the year	130	432	107	49	718
At 30 June 2011	**429**	**749**	**620**	**135**	**1,933**
Carrying amounts					
At 30 June 2011	**281**	**1,490**	**256**	**111**	**2,138**
At 30 June 2010	368	1,785	363	160	2,676

19. INTERESTS IN SUBSIDIARIES

The Company	Unlisted shares, at cost	Impairment loss	Amounts due from subsidiaries	Impairment loss on amounts due from subsidiaries	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2009	483	(480)	94,097	(34,574)	59,526
Advance to subsidiaries	—	—	100,332	—	100,332
Impairment loss recognised	—	—	—	(810)	(810)
At 30 June 2010 and 1 July 2010 (originally stated)	483	(480)	194,429	(35,384)	159,048
Prior year adjustments (Note 2)	—	—	46,000	—	46,000
At 30 June 2010 and 1 July 2010 (restated)	483	(480)	240,429	(35,384)	205,048
Advance to subsidiaries	—	—	21,260	—	21,260
Impairment loss recognised	—	—	—	(127,996)	(127,996)
At 30 June 2011	**483**	**(480)**	**261,689**	**(163,380)**	**98,312**

In the opinion of the Directors of the Company, the amounts due from subsidiaries are unsecured, non-interest bearing and are not expected to be repaid within one year from the date of reporting period and are therefore shown in the statement of financial position as non-current.

The Directors of the Company consider that the carrying amounts due from subsidiaries approximate to their fair values.

Particulars of the Company's subsidiaries at 30 June 2011 are set out in note 37.

20. INVENTORIES

The Group

	2011	2010
	HK$'000	*HK$'000*
Raw materials	**494**	518
Finished goods	**930**	391
Less: Provision for inventories	**(449)**	(459)
	975	450

Movements in provision for inventories:

	2011	2010
	HK$'000	*HK$'000*
Balance at the beginning of the year	**(459)**	(459)
Written back on provision for inventories during the year (note 14)	**10**	—
	(449)	(459)

21. TRADE RECEIVABLES

The Group

	2011	2010
	HK$'000	*HK$'000*
Trade receivables	**120,842**	83,899
Less: Impairment loss recognised	**(117,684)**	(159)
	3,158	83,740

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.

21. TRADE RECEIVABLES (Continued)

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

	2011	2010
	HK$'000	*HK$'000*
0 — 60 days	**3,055**	30,232
61 — 120 days	**1**	17,698
121 — 180 days	**—**	7,000
181 — 365 days	**81**	21,691
Over 365 days	**21**	7,119
	3,158	83,740

Past due but not impaired

Included in the Group's trade receivables balances are debts with carrying amount of approximately HK$102,000 (2010: HK$28,810,000) which were past due but not impaired at the end of the reporting period. In the opinion of the Directors of the Company, the amounts were still recoverable. The Group does not hold any collateral over these balances.

Age of receivables that are past due but not impaired

	2011	2010
	HK$'000	*HK$'000*
Overdue by:		
0 — 60 days	**2**	16,999
61 — 120 days	**1**	4,532
121 — 180 days	**78**	—
Over 180 days	**21**	7,279
	102	28,810

Impaired trade receivables

The movements in the allowance for doubtful debts during the year are set out below:

	2011	2010
	HK$'000	*HK$'000*
At the beginning of the year	**159**	48
Impairment loss recognised (note 14)	**117,525**	111
At the end of the year	**117,684**	159

22. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

The Group	2011 HK$'000	2010 HK$'000
Deposits paid (Note (a))	78,953	76,298
Less: Impairment loss recognised (note 14)	(32,500)	—
	46,453	76,298
Prepayments (Note (b))	86,501	104,357
Less: Impairment loss recognised (note 14)	(14,500)	—
	72,001	104,357
Other receivables (Note (c))	5,696	459
Less: Impairment loss recognised (note 14)	(5,135)	—
	561	459
	119,015	181,114

The Company	Deposit paid HK$'000
At 1 July 2009	—
Addition	46,000
At 30 June 2010 and 1 July 2010 (originally stated)	46,000
Prior year adjustments (note 2)	(46,000)
At 30 June 2010 and 1 July 2010 (restated)	—
Addition	2,500
Impairment loss recognised	(2,500)
At 30 June 2011	—

22. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Notes:

(a) (i) On 9 December 2009, Castletop Assets Limited ("Castletop"), a wholly-owned subsidiary of the Company, entered into a letter of intent (the "LOI") with 中成衛星技術中心有限公司 (the "Joint Venturer") in relation to the formation of a joint venture, namely 北京中成金豐醫療科技有限公司 ("中成金豐"). 中成金豐 is principally engaged in the business of research, development and operation of an electronic medical card system using the radio frequency identification technology in the PRC (the "e-Medical Card Project"). The sole shareholder of the Distributor is the sole shareholder of the Joint Venturer.

Under the LOI, it is proposed that the Joint Venturer will first form 中成金豐 in the PRC within 2 months from the date of the LOI (or such later date agreed in writing). It is intended that the shareholding of 中成金豐 will be held as to 20% by the Joint Venturer and as to 80% by Utopia Capital Limited ("Utopia"). Upon formation of the 中成金豐, the Joint Venturer would procure the shareholder of Utopia (the "Vendor") to sell its 80% equity interest in the 中成金豐 to Castletop. The Joint Venturer will negotiate with Castletop and 中成金豐 on the terms and conditions of the joint development of the e-Medical Card Project with a view to enter into a formal agreement in connection therewith. A sum of HK$5,000,000 refundable earnest money (the"First Earnest Money") was paid to the Joint Venturer by Castletop and the First Earnest Money would be transferred to the Vendor if Castletop and the Vendor enter into a formal agreement for the sales and purchase of the 80% the equity interest of 中成金豐 within 2 months from the date of the LOI, i.e. 9 February 2010. If 中成金豐 fails to proceed by 9 February 2010, the First Earnest Money would be refunded to Castletop in full within 3 business days. Details of the this transaction were set out in the Company's announcement dated 9 December 2009.

On 28 January 2010, Castletop and the Joint Venturer entered into an extension agreement to extend the completion date from 9 February 2010 to 30 April 2010. A Supplemental Letter of Intent (the "Supplemental LOI") was signed between Castletop and the Joint Venturer on 25 February 2010 and a sum of HK$ 10,000,000 was paid as further refundable earnest money (the "Second Earnest Money") to the Joint Venturer. Under Supplemental LOI, Castletop was entitled the right to appoint a director to 中成金豐 and a director to Utopia. Castletop finally appointed Ms. Keung Wai Fun Samantha, the former chief executive officer of the Group, as a director of Luck State Limited ("Luck State"), an entity directly held by Utopia and is the immediate holding company of 中成金豐. The Second Earnest Money would be dealt with in the same manner as the First Earnest Money and would be refunded to Castletop in full within 3 business days if the 中成金豐 fails to proceed by 30 April 2010. Details of the abovementioned transaction were set out in the Company's announcement dated 28 January 2010 and 25 February 2010.

On 3 May 2010, Castletop entered into the Heads of Agreement (the "HOA") with the Vendor and the Joint Venturer in which the chairman, sole director and legal representative of the Joint Venturer was the guarantor to the Vendor regarding the completion of the acquisition of 80% equity interest of 中成金豐 by Castletop. Under the HOA, Castletop was entitled to acquire the share capital of Utopia and paid a sum of HK$10,000,000 as further refundable earnest money (the "Third Earnest Money") to the Joint Venturer. The Third Earnest Money would be dealt with in the same manner as the First Earnest Money and the Second Earnest Money. If 中成金豐 fails to proceed by 31 August 2010 for whatsoever reason, the First Earnest Money, the Second Earnest Money and the Third Earnest Money (collectively referred as to the "JV Deposits") in the total sum of HK$25,000,000 will be refunded to Castletop in full within 3 business days. On 27 August 2010, all parties entered into an agreement to extend the long stop date of the HOA from 31 August 2010 to 31 December 2010. Details of the HOA are set out in the Company's announcement dated 3 May 2010 and 27 August 2010.

22. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(a) (i) On 31 December 2010, all parties have mutually agreed that the exclusivity clause of the HOA for entering into sales and purchase agreement will not be further extended and it has expired on 31 December 2010. The JV Deposits was not refunded by the Joint Venturer up to the date of these consolidated financial statements. The Directors of the Company were of the opinion that the JV Deposits would not be recoverable and an impairment loss on the entire amount of JV Deposits was recognised in profit or loss for the year ended 30 June 2011.

(ii) On 25 June 2010, an advance of HK$1,000,000 was paid to Luck State for the purpose of settlement of preliminary expenses in relation to the formation of 中成金豐 (the "JV Expense Advance"). The JV Expense Advance remain outstanding up to the date of these consolidated financial statements. In the opinion of the Directors of the Company, the JV Expenses Advance would not be recoverable, an impairment loss on the entire amount of the JV Expense Advance was recognised in profit or loss for the year ended 30 June 2011.

(iii) As at 1 July 2009, 30 June 2010 and 2011, included in deposits was a deposit for license fee of HK$4,000,000 (the "License Fee Deposit") and remain outstanding up to the date of these consolidated financial statements. The Directors of the Company were of the opinion that the Licence Fee Deposit would not be recoverable and an impairment loss on the entire amount of the License Fee Deposit was recognised in profit or loss for the year ended 30 June 2011.

(iv) During the year ended 30 June 2011, a deposit of HK$2,500,000 was paid to a contractor for the decoration of a training centre proposed to be operated by the Group (the "Contractor Deposit") in the name of 廣州市花都區富麗花譜職業培訓學校 ("花都區富麗花譜"). The Directors of the Company were of the opinion that the Contractor Deposit would not be recoverable and an impairment loss of the entire amount of the Contractor Deposit was recognised in profit or loss for the year ended 30 June 2011.

(v) As at 30 June 2010 and 2011, included in deposits was a refundable deposit of HK$45,000,000 for the acquisition of 70% equity interest of Vertical, which holds land and building in Hua Du Guangzhou, for establishing a beauty professional training institute. The total acquisition consideration amounted to HK$80,000,000. On 5 April 2012, the Group and the vendor of Vertical entered into the deed of termination (the "Deed") pursuant to which the sales and purchase agreement shall become null and void and without further effect. Accordingly, the vendor of Vertical shall repay the refundable deposit in full. Upon signing the Deed dated 5 April 2012, 10% of the refundable deposit amounted to HK$4,500,000 was repaid to the Group. Pursuant to the terms of the Deed, the remaining balance of HK$40,500,000 will be repaid to the Group within 3 months from the date of the Deed and interest rate of 30% per annum will be charged if fail to comply with the above terms. Details of the proposed acquisition and the termination of the proposed acquisition of 70% equity interest are set out in the Company's announcement dated 2 May 2010 and 5 April 2012 respectively.

22. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(b) (i) Included in the prepayments were equipment and inventories purchase prepayments from 2 Taiwan suppliers and 3 PRC suppliers amounted to approximately HK$46,004,000 and HK$24,139,000 respectively.

Subsequent to 30 June 2011, an amount of approximately HK$33,600,000 from one Taiwan supplier was settled by delivery of 100 carbon laser machines (note 36(g)). On the other hand, the Group entered into repayment schedules and inventory delivery schedules with the remaining Taiwan supplier and 3 PRC suppliers for settlement and repayment of prepayments amounted to approximately HK$34,702,000 (note 36(i)).

(ii) During the year ended 30 June 2011, a prepayment totaling approximately HK$12,050,000 paid to four suppliers for purchases of equipment and inventories (the "2011 Suppliers' Prepayments"). In the opinion of the Directors of the Company, the 2011 Suppliers' Prepayments would be not recoverable and remain outstanding up to the date of these consolidated financial statements, an impairment loss of the entire amount on the 2011 Suppliers' Prepayments was recognised in the profit or loss for the year ended 30 June 2011.

(iii) As at 30 June 2011, included in the prepayments was an amount of approximately HK$1,400,000 (2010: HK$6,200,000) paid to the Distributor for the selling and distribution costs (the "Distributor Prepayments"). The Directors of the Company were of the opinion that the Distributor Prepayments would not be recoverable and an impairment loss of the entire amount on the Distributor Prepayments was recognised in the profit or loss for the year ended 30 June 2011.

(iv) As at 30 June 2010 and 2011, included in prepayments was a legal fee prepayment of HK$1,050,000 paid to a law firm in Hong Kong (the "Legal Fee Prepayment") in relation to legal fees incurred on behalf of two entities (note 35). The Directors of the Company were of the opinion that the Legal Fee Prepayment would not be recoverable and an impairment loss of the entire amount on the Legal Fee Prepayment was recognised in profit or loss for the year ended 30 June 2011.

(c) Included in other receivables was loan receivable due from an entity amounting to HK$5,000,000, in which was unsecured, repayable within two year and carried interest at 5% per annum (the "Loan"). The Directors of the Company were of the opinion that the Loan would not be recoverable and an impairment loss of the entire amount of the Loan was recognised in profit or loss for the year ended 30 June 2011.

23. BANK BALANCES AND CASH

	The Group		**The Company**	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash at bank and in hand	**1,436**	1,752	**1,401**	110

At the end of the reporting period, the cash and bank balances of the Group denominated in CAD amounted to HK$8,858 (2010: HK$4,464).

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

24. ACCRUALS AND OTHER PAYABLES

	The Group		The Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Accruals	**5,786**	1,344	**3,198**	433
Other payables	**3,977**	1,740	**1,477**	687
	9,763	3,084	**4,675**	1,120

25. AMOUNT DUE TO A DIRECTOR

The Group and the Company

As at 30 June 2011, the amount due to a director was an amount due to Ms. Chan Choi Har, Ivy, the former Director of the Company amounted to approximately HK$219,000 (2010: HK$115,000) and HK$82,000 (2010: HK$1,000) of the Group and the Company respectively, which are non-interest bearing and is unsecured and repayable on demand. Ms. Chan Choi Har, Ivy resigned on 7 March 2012.

The Directors of the Company consider that the carrying amount approximately to its fair value.

26. AMOUNTS DUE TO RELATED COMPANIES/A RELATED PARTY

The Group

At 30 June 2011, the amounts due to related companies amounted to approximately HK$2,033,000 (2010: HK$4,963,000) are unsecured, non-interest bearing and repayable upon demand. The controlling shareholder of these related companies were Ms. Keung Wai Fun, Samantha, the former chief executive officer of the Company and Mr. Cheung Tsun Him, Samson, the former Director of the Company.

At 30 June 2011, the amount due to a related party, HK$385,000 (2010: HK$123,000) is unsecurred, non-interest bearing and repayable on demand. This amount was due to Ms. Keung Wai Fun, Samantha, who is the former chief executive officer of the Company.

Ms. Keung Wai Fan, Samantha and Mr. Cheung Tsun Him, Samson resigned on 7 March 2012 and 13 February 2012 respectively.

The Directors of the Company consider that the carrying amounts approximate to their fair values.

27. DEPOSITS FROM CUSTOMERS

The Group

	2011	2010
	HK$'000	*HK$'000*
Deposits from customers	**4,446**	2,915

The deposits from customers represents the deposits paid by the customers in advance for therapy services rendered and beauty products sold by BSHK.

Approximately HK$86,000 (2010: HK$68,000) of deposits from customers were prepayment of therapy services rendered and beauty products sold by BSHK at a discount rate ranged from 70% to 100% off to individuals claiming reference and approval from Ms. Chan Choi Har, Ivy, the former Director of the Company and a director of nine subsidiaries of the Group.

28. OTHER BORROWING

The Group and the Company	**2011**	2010
	HK$'000	*HK$'000*
Within one year	**2,000**	—

During the year, the Group obtained a loan from an independent third party amounted to HK$2,000,000. The loan bears no interest and will be repayable within one year.

29. CONVERTIBLE BONDS

The Group and the Company

On 29 April 2010, the Company issued zero coupon convertible bonds due on 28 April 2013 in an aggregate principal amount of HK$114,000,000 with a conversion price of HK$0.19 per conversion share.

Interest on the convertible bonds is calculated on the effective yield basis by applying the effective interest rate for an equivalent non-convertible bond to the liability component of the convertible bonds.

The fair value of the liability component, included in non-current liabilities, was calculated based on the estimated discounted cash flow over the estimated contractual terms of the convertible bonds and discounted using a market interest rate for an equivalent non-convertible bond. The discounted rate of the liability component of the convertible bonds was approximately 17.75%. The convertible bonds do not bear any interest.

29. CONVERTIBLE BONDS (Continued)

The Group and the Company

During the year 2011, the convertible bonds were fully converted into ordinary shares with an aggregate principal amount of HK$114,000,000 at a conversion price of HK$0.19 per conversion share.

The movement of liability component of the convertible bonds for the year is set out below:

	Total ***HK$'000***
Net proceeds of issue	**110,122**
Equity component	**(40,566)**
Liability component at date of issue	**69,556**
Imputed interest (note 11)	**2,132**
Liability component at 30 June 2010	**71,688**
Imputed interest (note 11)	**7,043**
Converted into ordinary shares	**(78,731)**
Liability component at 30 June 2011	**–**

30. SHARE CAPITAL

The Group and the Company	**Number of shares**	**Amount** *HK$'000*
Authorised:		
At 1 July 2009	1,000,000,000	100,000
Increase in authorised share capital (Note (a))	4,000,000,000	400,000
At 30 June 2010 and 30 June 2011	5,000,000,000	500,000
Issued and fully paid:		
At 1 July 2009	472,400,000	47,240
Issue of new shares pursuant to a placing agreements dated 19 August 2009 (Note (b))	49,800,000	4,980
At 30 June 2010 and 1 July 2010	522,200,000	52,220
Issue of shares on conversion of convertible bonds (Note (c))	600,000,000	60,000
Issue of new shares pursuant to a placing agreements dated 29 November 2010 (Note (d))	80,000,000	8,000
At 30 June 2011	1,202,200,000	120,220

30. SHARE CAPITAL (Continued)

The Group and the Company (Continued)

Notes:

(a) Pursuant to the ordinary resolution passed in the Extraordinary General Meeting of the Company held on 14 April 2010, the authorised share capital was increased from HK$100 million to HK$500 million by the creation of an additional 4,000,000,000 ordinary shares of HK$0.1 each.

(b) On 2 December 2009 the Company issued 49,800,000 new shares at HK$0.80 each by placing.

(c) During the year, the convertible bonds were fully converted into 600,000,000 ordinary shares with principal amounts of HK$114,000,000 at a conversion price of HK$0.19 per conversion share.

(d) On 15 December 2011, the Company issued 80,000,000 new shares at HK$0.375 each by placing.

31. RESERVES

The Company	Share premium	Convertible bonds equity reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2009	57,060	—	(44,661)	12,399
Shares issued pursuant to the placing agreement dated 19 August 2009	34,860	—	—	34,860
Transactions cost attributable to issue of new shares	(1,786)	—	—	(1,786)
Recognition of equity component of convertible bonds	—	40,566	—	40,566
Loss for the year	—	—	(5,910)	(5,910)
At 30 June 2010 and 1 July 2010	90,134	40,566	(50,571)	80,129
Shares issued pursuant to the placing agreement dated 29 November 2010	22,000	—	—	22,000
Transactions cost attributable to issue of new shares	(1,163)	—	—	(1,163)
Issue of shares on conversion of convertible bonds	59,297	(40,566)	—	18,731
Loss for the year	—	—	(146,961)	(146,961)
At 30 June 2011	170,268	—	(197,532)	(27,264)

32. DECONSOLIDATION OF SUBSIDIARIES

As disclosed in note 3 to the consolidated financial statements, 珠海富麗花 and 北京富麗花 were deconsolidated as the net assets (liabilities) of these subsidiaries at the date of deconsolidation on 30 June 2011 are as follows:

(a) 北京富麗花

	Total
	HK$'000
Net assets deconsolidated of:	
Bank balances and cash	213
	213
Release of translation reserve upon deconsolidation	(8)
	205
Loss on deconsolidation of a subsidiary (note 14)	(205)
Total consideration	—
Net cash outflow arising on deconsolidation:	
Bank balances and cash deconsolidated of	(213)

(b) 珠海富麗花

	Total
	HK$'000
Net liabilities deconsolidated of:	
Deposits, prepayments and other receivables	40
Amount due to a fellow subsidiary	(129)
Tax payables	(5)
	(94)
Release of translation reserve upon deconsolidation	24
	(70)
Gain on deconsolidation of a subsidiary (note 14)	70
Total consideration	—

The deconsolidation of the above subsidiaries did not result in significant impact on the Group's cash flow or operating results for the period.

33. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all employees. The MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group in respect of the MPF Scheme is to make the required contributions under the scheme.

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

34. OPERATING LEASE COMMITMENTS

At 30 June 2011, the total future minimum payments under non-cancelable operating lease are payable as follows:

The Group	**2011** ***HK$'000***	2010 *HK$'000*
Within One year	**4,444**	5,218
In the second to fifth year inclusive	**3,664**	3,903
Over five years	**—**	—
	8,108	9,121

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for an average terms of 2 to 5 years. Rentals are fixed over the lease terms and are based on the higher of a minimum guarantee rental or a sales level based rental. The minimum guaranteed rental has been used to compute the above commitments.

35. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the consolidated financial statements, the Group entered into the following material transactions with related parties during the year:

Name of party	Nature of transactions	2011 *HK$'000*	2010 *HK$'000*
Garrick International Limited ("Garrick") (Note (1))	Purchases of products	**40**	6,558
World Global International Enterprises Limited ("World Global") (Note (1))	Purchases of products	**26**	—
Ms. Chan Choi Har, Ivy (Note (2))	Rendering of therapy services and sales of beauty products	**31**	24

The following balances were outstanding at the end of the reporting period:

Name of party	Nature of transactions	2011	2010
Luck State (Note (3))	Advance of joint venture expense	**–**	1,000
Law Firm (Note (4))	Prepayment of legal fee	**–**	1,050

Notes:

(1) Ms. Keung Wai Fun, Samantha, a former chief executive officer of the Company, is the controlling shareholder and director of Garrick. Mr. Cheung Tsun Hin, Samson, a former Director of the Company, is the controlling shareholder and director of World Global. The Group purchased products at normal commercial terms from Garrick and World Global during the years ended 30 June 2011 and 2010.

Ms. Keung Wai Fun, Samantha and Mr. Cheung Tsun Hin, Samson resigned on 7 March 2012 and 13 February 2012 respectively.

(2) Ms. Chan Choi Har, Ivy, a former Director of the Company resigned on 7 March 2012.

(3) Ms. Keung Wai Fun, Samantha, a former chief executive officer of the Company, is a director of Luck State.

(4) The Company has paid a legal fee in advance to a Law Firm in Hong Kong on behalf of two entities, in which Ms. Keung Wai Fun, Samantha, the former chief executive officer of the Company and Ms. Chan Choi Har, the former Director of the Company are the controlling shareholders and directors of one of the entity.

35. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

Compensation for key management personnel

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

	2011 HK$'000	2010 HK$'000
Short-term employee benefits	**4,063**	3,480
Post-employment benefits	**39**	38
	4,102	3,518

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

36. EVENTS AFTER REPORTING PERIOD

(a) On 27 July 2011, the Company and Orient Securities Limited (the "Placing Agent") entered into a placing agreement, pursuant to which the Company has conditionally agreed to place through the Placing Agent a maximum of 110,000,000 placing shares (the "Placing Share") at a price of HK$0.15 per Placing Share under the best effort basis. The placing was completed on 5 August 2011. Details of the placing were set out in the Company's announcements dated 28 July 2011 and 5 August 2011.

(b) On 22 September 2011, Ms. 鄧圓圓, the sole shareholder of three entities, namely 北京富麗花，廣州市寶麗文化發展有限公司 ("寶麗文化") and 花都區富麗花譜, entered into a declaration of trust which states that she holds the equity interest of 北京富麗花，寶麗文化 and 花都區富麗花譜 on behalf of the Group, 鄧圓圓 is a supervisory board member of the Distributor.

(c) (i) BSHK entered into an agreement dated 10 August 2011 and a supplemental agreement dated 9 October 2011 with an entity located in Henan Province of the PRC ("Henan Entity A") pursuant to which BSHK appointed Henan Entity A as its agent for purchasing beauty products for the period from 15 January 2012 to 14 March 2012 (the "Purchasing Agreements"). BSHK has advanced approximately HK$9,770,000 (equivalent to RMB8,000,000) to Henan Entity A for purchasing beauty products on 31 August 2011 and 1 September 2011 according to the terms of the Purchasing Agreements;

36. EVENTS AFTER REPORTING PERIOD (Continued)

(c) (ii) BSHK entered into an agreement and a supplemental agreement dated 8 October 2011 with an entity located in Henan Province of the PRC ("Henan Entity B") and another entity located in Henan Province of the PRC ("Henan Entity C"), pursuant to which BSHK has appointed Henan Entity B and Henan Entity C as its agents to manage and implement advertisement plans including filming of TV commercials for the period from 10 January 2012 to 9 January 2013 in Henan province of the PRC (the "Advertisement Agreements"). BSHK paid approximately HK$12,204,000 (equivalent to RMB10,000,000) to Henan Entity B for agency fees and expenses in relation to the advertisement plans on 30 August 2011 according to the terms of the Advertisement Agreements;

(iii) BSHK entered into an agreement dated 5 September 2011 and a supplemental agreement dated 15 October 2011 with Henan Entity B pursuant to which BSHK has appointed Henan Entity B as its agent to manage the decoration of its leased premises located at Zhengzhou of Henan Province of the PRC (the "Henan Office Decoration Agreement"). BSHK advanced approximately HK$20,180,000 (equivalent to RMB16,580,000) to Henan Entity B for decoration related expenses on 13 and 14 September 2011 according to the terms of the Henan Office Decoration Agreements;

(iv) BSHK entered into a rental agreement dated 5 September 2011 and a supplemental agreement dated 15 October 2011 with Henan Entity B, pursuant to which BSHK has leased the premises located at Zhengzhou of Henan Province of the PRC, as stated in note 36(c)(iii) which Henan Entity B is the landlord (the "Henan Rental Agreement"). The rental period is from 10 December 2011 to 9 February 2015 with annual rental of approximately HK$7,030,000 (approximately equivalent to RMB5,838,000). BSHK advanced approximately HK$5,380,000 (approximately equivalent to RMB4,419,000) to Henan Entity B as half-year rental payment and rental deposits on 14 September 2011 according to the terms of the Henan Rental Agreements;

(v) BSHK entered into an agreement dated 12 September 2011 and a supplemental agreement dated 16 October 2011 with an entity located in Beijing ("Beijing Entity") pursuant to which BSHK has appointed Beijing Entity as its agent to undertake exhibition activities and marketing of the Group's products in Beijing, Bautou and Shanghai for the period from 1 February 2012 to 30 May 2012 (the "Exhibition Agreements"). BSHK advanced approximately HK$10,500,000 (equivalent to RMB8,600,000) to Beijing Entity for exhibition and marketing activities related expenses on 15 September 2011 according to the terms of the Exhibition Agreements;

36. EVENTS AFTER REPORTING PERIOD (Continued)

(c) (vi) Subsequent to 30 June 2011, there were cash received by 寶麗文化 totaling approximately HK$91,752,000 (approximately equivalent to RMB75,316,000) (the "Cash Inflow") from 4 individuals which were represented by the former Directors of the Company as partial settlement of the trade receivables due from the Distributor totalling approximately HK$114,411,000, full settlement of trade receivables due from two customers totalling approximately HK$3,114,000 and upfront payment for franchise agreement as set out in note 36(j) below. The Directors of the Company are not able to obtain sufficient information to satisfy themselves regarding the completeness and accuracy of the above mentioned purposes of the cash received by 寶麗文化 and therefore are in the opinion that no settlement of trade receivables nor upfront payment for franchise agreement were recorded. 寶麗文化 subsequently has made advances on behalf of BSHK to Henan Entity A, Henan Entity B and Beijing Entity as stated in note 36(c)(i) to (v) above with the Cash Inflow; and

(vii) Ms. Liu Xin, the former non-executive Director and chairman of the Company, held 40% equity interest in Henan Entity B up to 10 October 2011.

(d) As set out in the Company's announcement dated 7 March 2012, the Board has resolved to establish a special investigation committee, comprising one executive Director and two independent non-executive Directors of the Company, for the purpose of, inter alia, (i) investigating the issues raised by the predecessor auditors in their resignation letter; (ii) reviewing the internal control procedures and corporate governance policies of the Group; and (iii) making recommendations to the Board on appropriate actions to be taken (the "Investigation"). The investigation has not yet completed up to the date of the consolidated financial statements of the Group.

(e) On 1 August 2011, BSHK entered into a rental agreement with Dutfield International Group Company Limited ("Dutfield") of which Chan Choi Har Ivy, a former executive Director of the Company and a director of nine subsidiaries of the Group, has owned 50% equity interest. The rental period was from 11 August 2011 to 15 January 2012 and the monthly rental with management fees amounted to approximately HK$660,000. Up to the date of the consolidated financial statements of the Group, approximately HK$660,000 was paid to Dutfield and BSHK appointed a legal adviser to issue legal letter to Dutfield for the recovery of the rent paid to Dutfield.

(f) On 14 May 2012, BSHK appointed an legal adviser to issue legal letter to Betterwin (Membership) Ltd ("Betterwin") for the recovery of HK$750,000 paid to Betterwin over a period of time on various debit notes claiming for marketing fee in connection to the spa management agreement entered into between the Macau Jockey Club Members' (H.K.) Association Limited and BSHK dated 18 December 2009.

(g) Subsequent to 30 June 2011, the inventories of 100 carbon laser machines were despatched to the Group by a Taiwan's supplier to settle the inventory deposits of carrying value amounted to HK$33,600,000 on 30 June 2011. On 22 March 2012, 27 carbon laser machines of carrying value totalling HK$9,072,000 stored in the Company's warehouse in Guangzhou of the PRC were found lost. The Company reported the incident to both the Hong Kong and the PRC police for investigation. Details of which were set out in the Company's announcement dated 5 April 2012.

36. EVENTS AFTER REPORTING PERIOD (Continued)

(h) On 5 April 2012, BSHK and Shum Yeung entered into a deed for terminating the acquisition of Vertical (the "Deed"). In accordance with the Deed, Shum Yeung would refund HK$4,500,000 to BSHK on the signing of the Deed and the remaining balance of HK$40,500,000 would be scheduled to repay the Group within three months from the date of the Deed. Details of the Deed were set out in the Company's announcement dated 5 April 2012.

(i) Subsequent to 30 June 2011, the Group entered into repayment schedules and inventory delivery schedules with four suppliers for settlement and repayment of inventory prepayments amounted to approximately HK$34,702,000 which classified as "Prepayment, Deposits and Other Receivables" in the consolidated statement of financial position at 30 June 2011.

(j) BSHK entered into three franchise agreements with three customers in May 2011 and supplemental agreements, pursuant to which these customers have the right to use the trademark of the Group for trading products in Greater China region. Up to the date of the consolidated financial statements, license fee amounted to HK$12,500,000 were settled through 寶麗文化 on 29 August 2011.

(k) On 8 February 2012 and 27 March 2012, the Company has entered into two loan agreements with Koffman Investment Limited ("Koffman") of which Mr. Yu Shu Kuen, who was appointed as an executive Director and managing director of the Company on 13 February 2012, is the ultimate beneficial owner of Koffman, in the principle sum of HK$10,000,000 and HK$20,000,000 respectively.

(i) Pursuant to the loan agreement signed on 8 February 2012, Koffman agreed to make available to the Company a loan facility up to HK$10,000,000 (the "Loan A") at interest rate of 10% per annum. In consideration of Koffman agreeing to make the Loan A available, each of Blu Spa Group Limited and Beachgold Assets Limited pledged their 50% interest in BSHK (the "Share Charge") to Koffman as continuing security for Loan A. On 7 May 2012, the Company has fully repaid all outstanding borrowings and interest to Koffman in the total sum of approximately HK$10,201,000 and a deed of release has been issued by Koffman, pursuant to which Koffman agreed to release the Share Charge.

(ii) Pursuant to the loan agreement signed on 27 March 2012, Koffman agreed to make available to the Company a loan facility up to HK$20,000,000 (the "Loan B") for a term of 3 months from the date of the agreement at interest rate of 12% per annum. There is no security over the assets of the Group granted in respect of Loan B. Up to the date of these consolidated financial statements, the total sum of loan borrowed from Koffman and interest repaid by the Company were approximately HK$17,539,000 and HK$132,000 respectively. Details of which were set out in the Company's announcement dated 2 April 2012.

37. SUBSIDIARIES

Particulars of the Company's subsidiaries at 30 June 2011 are as follows:

Name of subsidiaries	Place of incorporation/ operation	Issued and paid up share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly %	Indirectly %	
Beachgold Assets Limited	British Virgin Islands/ Hong Kong	US$2	—	100	Holding of patent and trademarks/tradenames
Blu Spa Group Limited	British Virgin Islands/ Hong Kong	US$2,700	100	—	Investment holding
Blu Spa (Hong Kong) Limited	Hong Kong	HK$2	—	100	Market development, product distribution and customer support services
Blu Spa International Limited	British Virgin Islands/ Hong Kong	US$1	—	100	Inactive
Blu Spa Management Services Limited	British Virgin Islands/ Hong Kong	US$1	—	100	Inactive
Castletop Assets Limited	British Virgin Islands	US$2	—	100	Inactive
Clapton Holdings Limited	The Republic of Cyprus/Canada	CAD1,000	—	100	Advertising, marketing and granting of distribution rights
Max Gold Pacific Limited	British Virgin Islands/ Hong Kong	US$10,000	—	100	Inactive
Profit Full Global Limited	British Virgin Islands/ Hong Kong	US$2	—	100	Investment holding
Kingsbury Asia Limited	British Virgin Islands/ Hong Kong	US$2	—	100	Administration and operation
Star Beauty Canada Inc.	Canada	CAD1	—	100	Products purchasing
Star Beauty Group Holdings Limited	Hong Kong	HK$2	—	100	Inactive
Winner Century (Hong Kong) Limited	Hong Kong	HK$1	—	100	Inactive

38. AUTHORISATION FOR ISSUE OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board on 8 June 2012.

FINANCIAL SUMMARY

	FOR THE YEAR ENDED 30 JUNE				
	2007	2008	2009	2010	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
RESULTS					
Turnover	4,558	16,174	49,294	99,662	**53,400**
Profit/(loss) from ordinary activities attributable to shareholders	(3,735)	1,282	11,414	27,113	**(185,680)**

ASSETS AND LIABILITIES

	AS AT 30 JUNE				
	2007	2008	2009	2010	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Total assets	13,788	69,897	88,972	278,156	**134,210**
Total liabilities	(22,832)	(14,311)	(6,845)	(90,291)	**(24,440)**
Balance/(deficiency) of shareholders' funds	(9,044)	55,586	82,127	187,865	**109,770**