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)

FIRST QUARTERLY REPORT
FOR THE THREE MONTHS ENDED
30 SEPTEMBER 2011

* *For identification purpose only*

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

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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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UNAUDITED QUARTERLY RESULTS

The board of Directors (the "Board") is pleased to announce the unaudited condensed consolidated first quarterly results of the Company and its subsidiaries (collectively, the "Group") for the three months ended 30 September 2011 together with the comparative unaudited figures for the corresponding period in 2010 as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 30 September 2011

	Notes	(Unaudited) For the three months ended 30 September 2011 HK$'000	2010 HK$'000 (Restated)
Continuing operations			
Turnover	*4*	**–**	24,737
Cost of sales		**–**	(18,860)
Gross profit		**–**	5,877
Selling and distribution costs		**–**	(1,003)
Administrative expenses		**(939)**	(3,320)
Impairment loss recognised in respect of intangible assets		**(7,488)**	–
Impairment loss recognised in respect of deposits, prepayments and other receivables		**(229,934)**	–
Gain on de-consolidation of the subsidiaries		**155,547**	–
Finance costs	*5*	**–**	(2,882)
Loss before taxation	*6*	**(82,814)**	(1,328)
Income tax expense	*8*	**–**	(907)
Loss for the period from continuing operations		**(82,814)**	(2,235)
Discontinued operations			
Profit for the period from discontinued operations		**–**	2,626
(Loss) profit for the period		**(82,814)**	391
Other comprehensive income (expense)			
Exchange differences arising on translation of foreign operations		**–**	(1)
Release of translation reserve upon de-consolidation of subsidiaries		**4**	–
Other comprehensive income (expense) for the period		**4**	(1)
Total comprehensive (expense) income for the period		**(82,810)**	390
(Loss) profit for the period attributable to:			
Owners of the Company		**(82,814)**	391
Total comprehensive (expense) income for the period attributable to:			
Owners of the Company		**(82,810)**	390
		HK cents	*HK cents*
(Loss) earnings per share	*9*		
From continuing and discontinued operations			
Basic		**(6.52)**	0.07
Diluted		**(6.52)**	0.04
From continuing operations			
Basic		**(6.52)**	(0.38)
Diluted		**(6.52)**	N/A

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

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

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

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

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

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

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

3. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which is a collective term that includes all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), except for the non-consolidation of certain subsidiaries of the Group as explained below, and accounting principles generally accepted in Hong Kong. In addition, the unaudited condensed consolidated financial statements include applicable disclosures required by the GEM Listing Rules and by the Hong Kong Companies Ordinance.

The measurement basis used in the preparation of the unaudited condensed consolidated financial statements is the historical cost convention, as modified for the revaluation of certain financial instruments which are stated at their fair values.

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

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

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

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

Going Concern basis

These unaudited condensed consolidated financial statements have been prepared on a going concern basis notwithstanding that the Group incurred a loss attributable to the owners of the Company of approximately HK$82,814,000 for the period ended 30 September 2011, which indicates the existence of a material uncertainty and may cast significant doubt about the Group's ability to continue as a going concern.

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

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

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

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

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

Material Uncertainty relating to the Investigation

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

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

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

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

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

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

Subsidiaries not consolidated

The unaudited condensed consolidated financial statements were prepared based on the books and records maintained by the Company and its subsidiaries. However, the directors and management of certain subsidiaries of the Company, namely, the BSHK and its subsidiaries (the "BSHK Group"), Clapton Holdings Limited, Blu Spa International Limited and Blu Spa Management Services Limited (collectively referred to as the "Unconsolidated Subsidiaries"), have not provided complete documentary information and reasonable explanation in respect of the transactions asserted to have been undertaken. The Directors have not been able to obtain complete documentary information to satisfy themselves regarding the accounting treatments in respect of those transactions for the period ended 30 September 2011. As such, the results, assets and liabilities of the Unconsolidated Subsidiaries have not been included into the unaudited condensed consolidated financial statements of the Group since 1 July 2011. The resulting gain on de-consolidation, which is determined based on the net asset value of the Unconsolidated Subsidiaries as at 1 July 2011, of approximately HK$155,547,000 have been recognised in the unaudited condensed consolidated statement of comprehensive income for the period ended 30 September 2011. Moreover, as at 30 September 2011, the total amounts due from the Unconsolidated Subsidiaries to the Group of approximately HK$277,560,000, among which approximately HK$229,933,000 is considered not recoverable and impairment losses have been recognised in the unaudited condensed consolidated financial statements. The Directors consider that the remaining balances of the amounts due from the Unconsolidated Subsidiaries to Group of approximately HK$47,627,000 could be recovered in full.

Due to the significance of the operations of the Unconsolidated Subsidiaries, any adjustments to the transactions asserted to have been undertaken by the Unconsolidated Subsidiaries may have a significant consequential effect on the net assets of the Group as at 30 September 2011 and the results of the Group for the period then ended.

In the opinion of the Directors, the unaudited condensed consolidated financial statements as at 30 September 2012 and for the period then ended prepared on the aforementioned basis present more fairly the results and state of affairs of the Group as a whole in light of the aforesaid incomplete books and records of the Unconsolidated Subsidiaries. However, the de-consolidation of the Unconsolidated Subsidiaries from the beginning of the year were not in compliance with the requirements of Hong Kong Accounting Standard 27 (Revised) "Consolidated and Separate Financial Statements".

4. TURNOVER

	(Unaudited) For the three months ended 30 September	
	2011	2010
	HK$'000	*HK$'000*
Continuing operations		
Sales of beauty equipment	–	24,320
Sales of beauty products	–	196
Therapy services	–	221
	–	24,737
Discontinued operations		
Royalty fee income	–	2,432
Provision of training courses	–	500
	–	2,932

5. FINANCE COSTS

	(Unaudited) For the three months ended 30 September	
	2011	2010
	HK$'000	*HK$'000*
Continuing operations		
Imputed interest on convertible bonds	–	2,882

6. (LOSS) PROFIT FOR THE PERIOD

	(Unaudited) For the three months ended 30 September	
	2011	2010
	HK$'000	*HK$'000*
Loss for the period from continuing operations before tax has been arrived at after (charging) crediting:		
Staff costs including directors' remuneration	**(597)**	(2,947)
Amortisation of intangible assets	**–**	(234)
Depreciation of property, plant and equipment	**–**	(178)
Impairment loss recognised in respect of intangible assets	**(7,488)**	–
Impairment loss recognised in respect of deposits, prepayments and other receivables	**(229,934)**	–
Gain on de-consolidation of subsidiaries	**155,547**	–

7. DIVIDEND

The Board did not recommend the payment of any dividend for the three months ended 30 September 2011 (2010: Nil).

8. INCOME TAX EXPENSE

(i) No provision for Hong Kong profits tax has been made as the Group has no assessable profits in Hong Kong or the estimated assessable profit was wholly absorbed by tax losses brought forward for the three months ended 30 September 2011 (2010: approximately HK$907,000).

(ii) No provision for overseas income tax was made as the Company's overseas subsidiaries did not have taxable income for the three months ended 30 September 2011 (2010: Nil).

(iii) The Group had no significant unprovided deferred tax assets and liabilities at 30 September 2011 (2010: Nil).

9. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share for the three months ended 30 September 2011 is based on the loss for the period of approximately HK$82,814,000 (2010: profit of approximately HK$391,000) and on the weighted average number of 1,270,352,174 shares (2010: 583,069,565 shares) in issue during the period.

Diluted loss per share for the three months ended 30 September 2011 was the same as the basic loss per share as there was no diluting event during the period.

Diluted earnings per share for the three months ended 30 September 2010 assumed the conversion of all the outstanding convertible bonds of the Company, amounted to a maximum of 500,000,000 shares.

No diluted loss per share for the three months ended 30 September 2010 has been presented as the conversion of all outstanding convertible bonds would result in anti-dilutive effects.

10. RESERVES

	(Unaudited)					
	Share Premium	Merger Reserve	Convertible Bonds Equity Reserve	Translation Reserve	Accumulated Losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2011	**170,269**	**22,734**	**–**	**(4)**	**(203,449)**	**(10,450)**
Loss for the period	**–**	**–**	**–**	**–**	**(82,814)**	**(82,814)**
Other comprehensive income for the period:						
Release of translation reserve upon de-consolidation of subsidiaries	**–**	**–**	**–**	**4**	**–**	**4**
Total comprehensive expense for the period	**–**	**–**	**–**	**4**	**(82,814)**	**(82,810)**
Issue of shares pursuant to the placing agreement dated 27 July 2011	**5,500**	**–**	**–**	**–**	**–**	**5,500**
Transaction costs attributable to issue of new share	**(412)**	**–**	**–**	**–**	**–**	**(412)**
At 30 September 2011	**175,357**	**22,734**	**–**	**–**	**(286,263)**	**(88,172)**
At 1 July 2010	90,135	22,734	40,566	(21)	(17,769)	135,645
Profit for the period	–	–	–	–	391	391
Other comprehensive income for the period:						
Exchange differences arising from translation of operations outside Hong Kong	–	–	–	(1)	–	(1)
Total comprehensive income for the period	–	–	–	(1)	391	390
Conversion of convertible bonds	9,156	–	(6,999)	–	–	2,157
At 30 September 2010	99,291	22,734	33,567	(22)	(17,378)	138,192

11. MATERIAL RELATED PARTY TRANSACTIONS

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

Name of party	Nature of transactions	(Unaudited) Three months ended 30 September **2011** ***HK$'000***	2010 *HK$'000*
During the period, the Group entered into the following transactions with related parties:			
Garrick International Limited ("Garrick") *(Note)*	Purchases of products	–	6

Note:

Ms. Keung Wai Fun, Samantha, the former chief executive officer of the Company, is the controlling shareholder and director of Garrick. The Group purchased products at normal commercial terms from Garrick during the period ended 30 September 2010.

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

Compensation for key management personnel

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

	(Unaudited) For the three months ended 30 September **2011** ***HK$'000***	2010 *HK$'000*
Short-term employee benefits	**597**	879

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

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

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

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

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

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

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

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

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

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

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

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

On 16 July 2012, the Company appointed RSM Nelson Wheeler Corporate Advisory Limited ("RSM") as the independent forensic accountants to address the conditions set out by the Stock Exchange. On 28 September 2012, a forensic report (the "Forensic Report") was issued by RSM and the Company has submitted a copy of such report to the Stock Exchange on the same day. On 10 October 2012, the Special Investigation Committee has submitted the Forensic Report to the Board. Having considered the findings of the Forensic Report and complete documentary information and reasonable explanation in respect of the transactions asserted to have been taken by certain subsidiaries could not be obtained, the Directors have not been able to satisfy themselves regarding the accounting treatments in respect of those transactions for the three months ended 30 September 2011. As such, the results, assets and liabilities of these subsidiaries have not been included in the unaudited condensed consolidated financial statements for the three months ended 30 September 2011.

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

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

Financial Review

Due to the de-consolidation of certain subsidiaries, the financial statements of Clapton Holdings Limited, Blu Spa International Limited, Blu Spa Management Services Limited, BSHK and six of its wholly owned subsidiaries, including Winner Century (Hong Kong) Limited, Star Beauty Group Holdings Limited, Star Beauty Canada Inc., Max-Gold Pacific Limited, Profit Full Global Limited and Castletop Assets Limited, have not been included in the unaudited condensed consolidated financial information of the Group. As such, for the three months ended 30 September 2011, the Group did not have any turnover (2010: HK$27.7 million).

The consolidated loss attributable to shareholders of the Company amounted to approximately HK$82.8 million (2010: profit attributable to shareholders of the Company of HK$40.4 million) for the three months ended 30 September 2011. Such loss was mainly attributable to the combined effect of the impairment loss recognised in respect of intangible assets, the impairment loss recognised in respect of deposits, prepayment and other receivables and gain on de-consolidation of subsidiaries.

Future Plans

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

LITIGATION

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

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

(a) the outstanding sum of HK$45,000,000.00 (the "Outstanding Sum");
(b) the contractual interest accrued and due on the Outstanding Sum;
(c) the interest; and
(d) the costs.

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

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

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

    (a) HK$4,050,000.00 payable to the Plaintiff on 13 November 2012;
    (b) HK$1,597,808.20 payable to the Plaintiff on 13 November 2012;
    (c) HK$36,450,000.00 payable to the Plaintiff on 30 November 2012; and

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

The Plaintiff received an aggregate sum of HK$5,647,808.20 from the Defendant on 13 November 2012. On 30 November 2012, the Defendant defaulted to pay HK$36,450,000 as stated in the Deed of settlement and still defaults to pay such amount as at the date of this report. The Plaintiff will continue to proceed with the court action to recover the outstanding balance of the Claims.

SHARE OPTION SCHEME

As at 30 September 2011, no share option was granted under the share option scheme adopted on 30 January 2002.

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

As at 30 September 2011, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have taken under such provisions of the SFO), or which were recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or otherwise were notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules, were as follows:

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

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

Notes:

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

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

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

4. The percentage is calculated on the basis of 1,312,200,000 shares of the Company in issue as at 30 September 2011.

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

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

As at 30 September 2011, so far as is known to the Directors and the chief executive of the Company, the interests and short positions of the persons or corporations (other than the Directors and the chief executive of the Company) in the shares and underlying shares of the Company as recorded in the registers required to be kept by the Company pursuant to Section 336 of the SFO; or who was directly or indirectly, to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other members of the Group, were as follows:

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

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

Notes:

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

2. The percentage is calculated on the basis of 1,312,200,000 shares of the Company in issue as at 30 September 2011.

Save as disclosed above, as at 30 September 2011, so far as is known to the Directors and the chief executive of the Company, and based on the public records filed on the website of the Stock Exchange and records kept by the Company, no other person or corporation (other than the Directors and the chief executive of the Company) has interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, or, were directly or indirectly, interest in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other members of the Group.

OTHER INTERESTS DISCLOSEABLE UNDER THE SFO

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

COMPETING INTERESTS

As at 30 September 2011, none of the Directors, substantial shareholders of the Company nor any of their respective associates (as defined in the GEM Listing Rules) has any interest in a business which causes or may cause any significant competition with the business of the Group.

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") with the written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules. As at 30 September 2011, Mr. Chan Sze Hon (resigned on 10 January 2012), Mr. Lam Wai Pong (resigned on 31 January 2012) and Mr. Cheng Hai (removed on 8 May 2012) were the members of the Audit Committee. As at the date of this report, the Audit Committee comprises three independent non-executive Directors, namely Mr. Tam B Ray Billy, Mr. Chu Kin Wang Peleus and Mr. Tse Joseph. The Audit Committee has reviewed the unaudited condensed consolidated first quarterly results for the three months ended 30 September 2011 and has provided advice and comments thereon.

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

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

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

Hong Kong, 6 December 2012

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