



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 2012

* *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 enquires, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

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

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 2012 together with the comparative unaudited figures for the corresponding period in 2011 as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 30 September 2012

		(Unaudited)	
		For the three months ended	
		30 September	
	notes	2012 HK\$'000	2011 HK\$'000
Turnover	4	3,514	—
Cost of sales		<u>(5,151)</u>	—
Gross loss		(1,637)	—
Other revenue and income		16	—
Selling and distribution costs		(54)	—
Administrative expenses		(3,300)	(939)
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
Finance costs	5	<u>(673)</u>	—
Loss before taxation		(5,648)	(82,814)
Income tax expense	8	<u>—</u>	—
Loss for the period	6	<u>(5,648)</u>	(82,814)
Other comprehensive income			
Release of translation reserve upon de-consolidation of subsidiaries		<u>—</u>	4
Other comprehensive income for the period		<u>—</u>	4
Total comprehensive expense for the period		<u>(5,648)</u>	(82,810)
Loss for the period attributable to:			
Owners of the Company		<u>(5,648)</u>	(82,814)
Total comprehensive expense for the period attributable to:			
Owners of the Company		<u>(5,648)</u>	(82,814)
		<i>HK cent(s)</i>	<i>HK cent(s)</i>
Loss per share	9		
Basic		<u>(0.43)</u>	(6.52)
Diluted		<u>(0.43)</u>	(6.52)

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 developing, distributing and marketing of personal care treatment, products and 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 2012 are consistent with those used in the annual financial statements of the Group for the year ended 30 June 2012, except for the impact of the adoption of the new and revised Hong Kong Accounting Standards (“HKASs”), 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 (“new and revised HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

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

The adoption of the new and revised HKFRSs has no material effect on the unaudited condensed consolidated 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 HKFRSs, which is a collective term that includes all applicable individual HKFRSs, HKASs and Interpretations issued by the HKICPA, except for the non-consolidation of certain subsidiaries of the Group as explained below, and accounting principles generally accepted in Hong Kong. In addition, the unaudited condensed consolidated financial statements include applicable disclosures required by the GEM Listing Rules and 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 the annual financial statements for the year ended 30 June 2012.

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

Going concern basis

The Directors have taken the following actions to mitigate the liquidity issue faced by the Group and improve its financial position which include, but not limited to, the followings: (i) the repayment of the amount due from Blu Spa (Hong Kong) Limited (“BSHK”) of approximately HK\$42,066,000; (ii) the extension of repayment of a loan facility of approximately HK\$25,349,000 granted by a company owned by an executive Director (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 completed successfully, the Group would be able to generate sufficient funds to meet its future working capital requirements and financial obligations when they fall due. Accordingly, the Directors consider that it is appropriate to prepare these unaudited condensed consolidated financial statements on a going concern basis.

The applicability of the going concern basis depends on the outcomes of the Proposed Plans, which the eventual outcome is uncertain, and the Group’s ability to generate sufficient funds to meet its future working capital requirements and financial obligations when they fall due. The 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 the 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 (“RSM”) 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 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 treatments 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, 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 since 1 July 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 for the year ended 30 June 2012. 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 consolidated statement of comprehensive income for the year ended 30 June 2012. Moreover, as at 30 September 2012 and 30 June 2012, the amounts due from the Unconsolidated Subsidiaries to the Group of approximately HK\$282,296,000 and HK\$288,303,000 respectively, among of which no additional impairment loss had been recognised in the unaudited condensed consolidated statement of comprehensive income for the three months ended 30 September 2012 and approximately HK\$229,933,000 was considered not recoverable and impairment losses had been recognised in the unaudited condensed consolidated statement of comprehensive income for the three months ended 30 September 2011.

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 and the results of the Group for the three months ended 30 September 2012.

In the opinion of the Directors, the unaudited condensed consolidated financial statements for the three months ended 30 September 2012 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 1 July 2011 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	
	2012	2011
	HK\$'000	HK\$'000
Sales of beauty equipment	1,140	—
Sales of beauty products	1,355	—
Therapy services	1,114	—
Sales discount	(95)	—
	<u>3,514</u>	<u>—</u>

5. FINANCE COSTS

(Unaudited)
For the three months ended
30 September
2012 2011
HK\$'000 **HK\$'000**

Interest expenses on other borrowing	666	—
Interest expenses on finance lease	7	—
	<u>673</u>	<u>—</u>

6. LOSS FOR THE PERIOD

(Unaudited)
For the three months ended
30 September
2012 2011
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	(2,813)	(597)
Depreciation of property, plant and equipment	(248)	—
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
	<u>—</u>	<u>155,547</u>

7. DIVIDEND

The Board did not recommend the payment of any dividend for the three months ended 30 September 2012 (2011: 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 2012 (2011: Nil).
- (ii) No provision for overseas income tax was made as the Company's overseas subsidiaries did not have taxable income for the three months ended 30 September 2012 (2011: Nil).
- (iii) The Group had no significant unprovided deferred tax assets and liabilities at 30 September 2012 (2011: Nil).

9. LOSS PER SHARE

The calculation of the basic loss per share for the three months ended 30 September 2012 is based on the loss for the period of approximately HK\$5,648,000 (2011: approximately HK\$82,814,000) and on the weighted average number of 1,312,200,000 shares (2011: 1,270,352,174 shares) in issue during the period.

Diluted loss per share for the three months ended 30 September 2012 and 30 September 2011 were the same as the basic loss per share as there was no diluting event during the periods.

10. RESERVES

	Share Premium <i>HK\$'000</i>	Merger Reserve <i>HK\$'000</i>	(Unaudited) Translation Reserve <i>HK\$'000</i>	Accumulated Losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 July 2012	175,357	22,734	—	(303,838)	(105,747)
Loss for the period	—	—	—	(5,648)	(5,648)
Total comprehensive expense for the period	—	—	—	(5,648)	(5,648)
At 30 September 2012	<u>175,357</u>	<u>22,734</u>	<u>—</u>	<u>(309,486)</u>	<u>(111,395)</u>
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	<u>175,357</u>	<u>22,734</u>	<u>—</u>	<u>(286,263)</u>	<u>(88,172)</u>

11. MATERIAL RELATED PARTY TRANSACTIONS

The Group had the following material transactions with related parties during the period:

Name of parties	Nature of transactions	2012 HK\$'000	2011 HK\$'000
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During the period, the Group entered into the following transactions with related parties:

Koffman Investment Limited (“Koffman”) (Note 1)	Loan drawdown	5,752	—
	Settlement of Loan interest	656	—
BSHK (Note 2)	Purchases of products	—	—
	Rendering of management services	—	—
	Purchases of property, plant and equipment	603	—

The following balance was outstanding at the end of the reporting period:

Koffman (Note 1)	Loan	<u>25,349</u>	—
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Notes:

- (1) Mr. Yu Shu Kuen (“Mr. Yu”), the chairman of the Board (the “Chairman”) and an executive Director, is the ultimate beneficial owner of Koffman.
- (2) BSHK was de-consolidated on 1 July 2011. Details of which were set out in the audited consolidated financial statements for the year ended 30 June 2012.

Compensation for key management personnel

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

	The Group	
	2012 HK\$'000	2011 HK\$'000
Short-term employee benefits	324	597
Post-employment benefits	<u>4</u>	—
	<u>328</u>	<u>597</u>

The remuneration of Directors and key management personnel is proposed by the remuneration committee having regard to the performance of individuals and market trends and with reference to the Board’s corporate goals and objectives.

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 in normal commercial terms with Koffman, of which Mr. Yu, the Chairman and an executive Director, 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 dates of all the outstanding borrowings for the loan agreement entered into on 27 March 2012 had been extended from 27 June 2012 to 31 January 2013, by entering of seven supplementary loan agreements dated 26 June 2012, 26 September 2012, 26 October 2012, 26 November 2012, 7 December 2012, 31 December 2012 and 15 January 2013 respectively.

On 8 June 2012, the Company approved the annual results announcement for the year ended 30 June 2011, in which a disclaimer of opinion was issued by the independent auditors of the Group in the independent auditors' report.

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

- (a) engage an independent professional adviser acceptable to the Stock Exchange to conduct a forensic investigation to address all the issues raised in the predecessor auditors' resignation letter and the audit qualifications made by the Company's current auditors in its independent auditors' report for the year ended 30 June 2011;
- (b) inform the market of all material information (including the findings of the forensic investigation of (a) above) that is necessary to appraise the Group's position;
- (c) publish all outstanding financial results and reports, and address any other concerns raised by the Company's current auditors; and
- (d) demonstrate that the Group has adequate financial reporting procedures and internal control systems to meet the obligations under the GEM Listing Rules.

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

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

On 16 July 2012, the Company appointed RSM as the independent forensic accountants to address the conditions set out by the Stock Exchange. On 28 September 2012, a forensic investigation report (the "Forensic Investigation Report") was issued by RSM and the Company has submitted a copy of such report to the Stock Exchange on the same day. On 10 October 2012, a copy of the Forensic Investigation Report was submitted to the Board by the special investigation committee of the

Company formed on 7 March 2012. Having considered the findings of the Forensic Investigation Report and complete documentary information and reasonable explanation in respect of the transactions asserted to have been undertaken by certain subsidiaries could not be obtained, the Directors have not been able to satisfy themselves regarding the accounting treatments in respect of those transactions for the year ended 30 June 2012. As such, the results, assets and liabilities of these subsidiaries have not been included in the consolidated financial statements for the year ended 30 June 2012 (the “De-consolidation”). Similarly, the Unconsolidated Subsidiaries have not been included in the unaudited condensed consolidated financial statements for the three months ended 30 September 2012.

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

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

During the period under review, the management continued to streamline its operations. Up to the date of this report, the Group terminated 3 spa centres located at Central, Cheung Sha Wan and Sheung Wan. In addition, the Group shall terminate the operation of the hair rejuvenating centre located at Central upon expiration of the tenancy agreement in February 2013.

Financial Review

Due to De-consolidation, the financial statements of the Unconsolidated Subsidiaries have not been included in the unaudited condensed consolidated financial information of the Group for the three months ended 30 September 2012.

During the period under review, the Group recorded a turnover of approximately HK\$3.5 million of which HK\$1.3 million, HK\$1.1 million and HK\$1.1 million were generated from the sale of beauty products, beauty equipment and provision of beauty treatments respectively. The gross loss of approximately HK\$1.6 million was mainly attributed to the direct costs of salaries and rental expenses incurred in the preliminary development stage of the new business.

The administrative expenses of approximately HK\$3.3 million mainly comprised of salaries and directors’ remuneration of HK\$1.0 million; legal and professional fees of HK\$0.5 million; rent and rates of HK\$0.4 million; overseas travelling expenses of HK\$0.3 million and depreciation of HK\$0.3 million.

The finance costs of approximately HK\$0.7 million was mainly attributed to the loan interest expenses paid to Koffman during the period under review.

The consolidated loss attributable to owners of the Company amounted to approximately HK\$5.6 million (2011: HK\$82.8 million) for the three months ended 30 September 2012. The improvement of the results was mainly contributed by the non-recurrence of once off impairment loss recognised in respect of deposits, prepayments and other receivables recorded in the corresponding period of last year.

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

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

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

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

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

- (i) the Defendant shall pay the following amounts by way of cashier’s order or solicitors’ cheque to the Plaintiff on the following specified dates:
 - (a) HK\$4,050,000.00 payable to the Plaintiff on 13 November 2012;
 - (b) HK\$1,597,808.20 payable to the Plaintiff on 13 November 2012; and
 - (c) HK\$36,450,000.00 payable to the Plaintiff on 30 November 2012;
- (ii) upon payment of the entirety of the sums by the Defendant on the specified dates as set out above, the Plaintiff shall by way of court order withdraw the legal proceedings and the summary judgment application under the Writ and the statutory demand against the Defendant with no order as to costs.

On 21 December 2012, the Company announced that the Plaintiff received an aggregate sum of HK\$5,647,808.20 from the Defendant. In addition, the Plaintiff agreed to further extend the repayment date of HK\$36,450,000 and the Defendant shall pay the following amounts by way of cashier's order or solicitors' cheque to the Plaintiff on the following specified dates:

- (a) HK\$838,849.32, being the accrued interest from 1 December 2012 to 28 December 2012 (both day inclusive), shall be payable to the Plaintiff on 28 December 2012;
- (b) HK\$90,000.00, being the legal costs in relation to the Deed of Settlement, shall be payable to the Plaintiff on 28 December 2012; and
- (c) RMB29,571,885.00, equivalent to approximately HK\$36,450,000.00 (at the exchange rate of 0.8113 as quoted from The People's Bank of China as at 20 December 2012), being the outstanding principal, shall be payable to the receiving agent appointed by the Plaintiff, namely Mr. Yu, in the mainland China on 28 December 2012.

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

On 7 January 2013, the Plaintiff agreed to accept the proposal from the Defendant to further extend the repayment date of HK\$36,450,000.00 and the Defendant shall pay the following amounts by way of cashier's order or solicitors' cheque to the Plaintiff on the following specified dates:

- (a) HK\$479,342.47, being the accrued interest from 1 January 2013 to 16 January 2013, shall be payable to the Plaintiff on 16 January 2013;
- (b) The outstanding principal of HK\$36,450,000.00 in its equivalent amount of Renminbi shall be paid to the receiving agent appointed by the Plaintiff, namely Mr. Yu, in the mainland China on 29 January 2013; and
- (c) HK\$120,000.00, being the legal costs in relation to the Deed of Settlement, shall be payable to the Plaintiff on 29 January 2013.

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

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

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

- (a) HK\$1,822,500.00, being 5% of the outstanding principal sum of HK\$36,450,000.00 (the “Outstanding Principal Sum”) payable on or before 29 January 2013;
- (b) HK\$389,465.70, being the daily interest accruing for January 2013 (from 17 January 2013 to 29 January 2013) payable on or before 29 January 2013;
- (c) HK\$1,736,118.49, being the additional daily interest accruing on the new principal balance of HK\$34,627,500.00 (the “New Balance”) (for the period from 30 January 2013 to 31 March 2013) payable on or before 29 January 2013;
- (d) HK\$120,000.00, being part contribution to the legal costs of the Plaintiff payable on or before 29 January 2013; and
- (e) HK\$34,627,500.00, being the New Balance payable on or before 31 March 2013.

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

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

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

CHANGE OF BOARD COMPOSITION

During the period under review, the composition of the Board has the following changes:

- (a) Mr. Ji He Qun was retired as executive Director on 27 July 2012;
- (b) Mr. Lee Chan Wah was appointed as executive Director on 16 August 2012;
- (c) Mr. Tse Joseph was appointed as independent non-executive Director on 16 August 2012; and
- (d) Mr. Du Juanhong resigned as the Chairman but remains as non-executive Director and Mr. Yu was appointed as the Chairman in place of Mr. Du Juanhong with effect from 16 August 2012.

EVENTS AFTER THE REPORTING PERIOD

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

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

The Directors proposed to create a contributed surplus account of the Company and the share premium account of the Company will be cancelled. The credits arising from the cancellation of the share premium account will be transferred to the newly created contributed surplus account of the Company within the meaning of the Companies Act 1981 of the Bermuda effective upon the change of domicile. Details of such proposal were disclosed in the Circular.

(ii) Change of domicile

The Directors proposed to change the domicile of the Company from the Cayman Islands to Bermuda by way of de-registration in the Cayman Islands and continuation as an exempted company under the laws of Bermuda and to adopt a new memorandum of continuance and Bye-laws in compliance with Bermuda laws to replace the existing memorandum and articles of association of the Company. Details of the change of domicile and adoption of new memorandum and of continuance and Bye-laws were set out in the Circular.

(iii) Capital reorganisation

After the change of domicile, the Directors proposed to reorganise the capital of the Company, which involves the capital reduction and the capital consolidation. Details of the capital reorganisation were set out in the Circular.

(iv) Change of company name

The Board proposed to change the name of the Company from "China AU Group Holdings Limited" to "EDS Wellness Holdings Limited" and the existing Chinese name of the Company being "中國金豐集團控股有限公司" (which was adopted for identification purpose) will no longer be adopted, subject to the conditions as set out in the Circular being fulfilled. Details of such change were set out in the Circular.

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

As at 30 September 2012, 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 corporation (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 position in the ordinary shares of HK\$0.1 each of the Company

Name	Nature of interests	Number of shares held	Approximate percentage of shareholding (Note 4)
<i>Executive Directors</i>			
Mr. Wang Xiaofei	Personal interest	230,400,000	17.56%
Mr. Ji He Qun ("Mr. Ji") (Note 2)	Personal interest	13,610,000	1.04%
	Family interest	1,760,000 (Note 1)	0.13%
<i>Non-executive Director</i>			
Mr. Du Juanhong ("Mr. Du")	Corporate interest	106,580,000 (Note 3)	8.12%

Notes:

- 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.
- Mr. Ji was retired as Director on 27 July 2012.
- These shares were held by Hong Kong Wintek International Co. Limited ("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.
- The percentage is calculated on the basis of 1,312,200,000 shares of the Company in issue as at 30 September 2012.

Save as disclosed above, as at 30 September 2012, none of the Directors or the chief executive of the Company nor their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO); or were required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein, or as otherwise were required to be notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

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

As at 30 September 2012, so far as is known to the Directors and the chief executive of the Company, the interests and shorts positions of the persons or corporations (other than the Directors and the chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO; or who was directly or indirectly, to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other members of the Group, were as follows:

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

Name of shareholder	Nature of interests	Number of shares held	Approximate percentage of shareholding (Note)
Wintek	Beneficial owner	106,580,000	8.12%

Note: The percentage is calculated on the basis of 1,312,200,000 shares of the Company in issue as at 30 September 2012.

Save as disclosed above, as at 30 September 2012, so far as is known to the Directors and the chief executive of the Company, and based on the public records kept 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, 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.

OTHER PERSON'S INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

Save as disclosed above, so far as is known to the Directors, there is no other person who has an interest or short position in the shares or underlying shares as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to the Stock Exchange.

COMPETING INTERESTS

As at 30 September 2012, none of the Directors, substantial shareholders of the Company nor any of their respective associates (as defined in the GEM Listing Rules) has any interest in a business which causes or may cause any significant competition with the business of the Group.

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

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

AUDIT COMMITTEE

The Company has established an audit committee (the “Audit Committee”) with written terms of reference in compliance with Rules 5.28 to 5.29 of the GEM Listing Rules. As at 30 September 2012, the Audit Committee comprised three independent non-executive Directors, namely, Mr. Tam B Ray Billy, Mr. Chu Kin Wang Peleus and Mr. Tse Joseph (appointed on 16 August 2012). The Audit Committee has reviewed the unaudited condensed consolidated first quarterly results for the three months ended 30 September 2012 and has provided advice and comments thereon.

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

Hong Kong, 29 January 2013

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