# 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 RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 30 JUNE 2012

**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 announcement, 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 announcement 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 announcement misleading.*

* *For identification purpose only*

## RESULTS

The board of Directors (the "Board") is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (collectively, the "Group") for the year ended 30 June 2012 together with the comparative figures for the corresponding year in 2011 as follows:

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 30 June 2012*

| | Notes | 2012 HK$'000 | 2011 HK$'000 (Restated) |
|---|---|---|---|
| **Continuing operations** | | | |
| Turnover | 5 | **702** | 49,064 |
| Cost of sales | | **(1,213)** | (37,475) |
| Gross (loss) profit | | **(511)** | 11,589 |
| Other revenue | | **987** | 312 |
| Selling and distribution costs | | **(2)** | (7,757) |
| Administrative expenses | | **(7,809)** | (16,754) |
| Impairment loss recognised in respect of intangible assets | | **(7,488)** | – |
| Impairment loss recognised in respect of trade receivables | | **–** | (117,525) |
| Impairment loss recognised in respect of deposits, prepayments and other receivables | | **(240,593)** | (52,135) |
| Gain (loss) on de-consolidation of subsidiaries | | **155,547** | (135) |
| Finance costs | 6 | **(520)** | (7,043) |
| Loss before tax | 7 | **(100,389)** | (189,448) |
| Income tax expense | 8 | **–** | (6) |
| Loss for the year from continuing operations | | **(100,389)** | (189,454) |
| **Discontinued operations** | | | |
| Profit for the year from discontinued operations | 9 | **–** | 3,774 |
| Loss for the year | | **(100,389)** | (185,680) |
| **Other comprehensive income** | | | |
| Exchange differences arising on translation of foreign operations | | **–** | 1 |
| Release of translation reserve upon de-consolidation of subsidiaries | | **4** | 16 |
| Other comprehensive income for the year | | **4** | 17 |
| **Total comprehensive expense for the year** | | **(100,385)** | (185,663) |

| | Notes | **2012** | 2011 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| | | | (Restated) |
| **Loss for the year attributable to:** | | | |
| Owners of the Company | | **(100,389)** | (185,680) |
| **Total comprehensive expense for the year attributable to:** | | | |
| Owners of the Company | | **(100,385)** | (185,663) |
| **Loss per share (HK cents)** | *11* | | |
| From continuing and discontinued operations | | | |
| – Basic and diluted | | **(7.71)** | (22.09) |
| From continuing operations | | | |
| – Basic and diluted | | **(7.71)** | (22.53) |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 30 June 2012*

| | Notes | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | | **–** | 7,488 |
| Property, plant and equipment | | **3,156** | 2,138 |
| | | **3,156** | 9,626 |
| **Current assets** | | | |
| Inventories | *12* | **1,943** | 975 |
| Trade receivables | *13* | **–** | 3,158 |
| Deposits, prepayments and other receivables | *14* | **52,272** | 119,015 |
| Bank balances and cash | | **308** | 1,436 |
| | | **54,523** | 124,584 |
| **Current liabilities** | | | |
| Amount due to a former director | | **2** | 219 |
| Amounts due to related companies | | **–** | 2,033 |
| Amount due to a related party | | **–** | 385 |
| Deposits from customers | *15* | **551** | 4,446 |
| Accruals and other payables | *16* | **11,513** | 9,763 |
| Obligation under financial leases | *18* | **105** | – |
| Other borrowing | *17* | **19,586** | 2,000 |
| Provision for taxation | | **–** | 5,594 |
| | | **31,757** | 24,440 |
| **Net current assets** | | **22,766** | 100,144 |
| **Total assets less current liabilities** | | **25,922** | 109,770 |
| **Non-current liability** | | | |
| Obligation under financial leases | *18* | **449** | – |
| **Net assets** | | **25,473** | 109,770 |
| **Equity attributable to owners of the Company** | | | |
| Share capital | | **131,220** | 120,220 |
| Reserves | | **(105,747)** | (10,450) |
| **Total equity** | | **25,473** | 109,770 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 30 June 2012*

| | Share capital HK$'000 | Share premium HK$'000 | Merger reserve HK$'000 (Note 1) | Convertible bonds equity reserve HK$'000 | Translation reserve HK$'000 (Note 2) | Accumulated losses HK$'000 | Total equity HK$'000 |
|---|---|---|---|---|---|---|---|
| At 1 July 2010 | 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 de-consolidation 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 and 1 July 2011 | 120,220 | 170,269 | 22,734 | – | (4) | (203,449) | 109,770 |
| Loss for the year | – | – | – | – | – | (100,389) | (100,389) |
| Other comprehensive income for the year: | | | | | | | |
| Release of translation reserve upon de-consolidation of subsidiaries | – | – | – | – | 4 | – | 4 |
| Total comprehensive expense for the year | – | – | – | – | 4 | (100,389) | (100,385) |
| Issue of shares pursuant to the placing agreement dated 27 July 2011 | 11,000 | 5,500 | – | – | – | – | 16,500 |
| Transaction costs attributable to issue of new shares | – | (412) | – | – | – | – | (412) |
| **At 30 June 2012** | **131,220** | **175,357** | **22,734** | **–** | **–** | **(303,838)** | **25,473** |

*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.

## NOTES OF THE 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 consolidated 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 is an investment holding company and the principal activities of its principal subsidiaries are product distribution and customer support services.

### 2. 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 HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") except for non-consolidation of certain subsidiaries of the Group as explained below and accounting principles generally accepted in Hong Kong. In addition, the consolidated financial statements include applicable disclosures required by 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.

**Going concern basis**

These 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$100,389,000 for the year ended 30 June 2012 which indicates the existence of a material uncertainty and may cast significant doubt about the Group's ability to continue as a going concern.

The Directors 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 following actions to mitigate the liquidity issue faced by the Group and improve its financial position which include, but are not limited to, the followings: (i) the repayment of the amounts due from the Blu Spa (Hong Kong) Limited ("BSHK") of approximately HK$47,710,000; and (ii) the extension of repayment of a loan facility of HK$19,586,000 granted by a company owned by an executive director (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, 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 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. The 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 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 consolidated financial statements.

**Material Uncertainty relating to the Investigation**

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

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

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

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

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

As a result, the Company had appointed RSM Nelson Wheeler Corporate Advisory Limited to conduct a forensic investigation to address (i) all the issues raised by the predecessor auditors in their resignation letter dated 7 March 2012; and (ii) all the issues raised by the Company's current auditors in its independent auditor's report dated 8 June 2012. Up to the date of this announcement, 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 this announcement, 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 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 year ended 30 June 2012. As such, the results, assets and liabilities of the Unconsolidated Subsidiaries have not been included into the consolidated financial statements of the Group since 1 July 2011. The resulting gain on de-consolidation, which is determined based on the net asset value of the Unconsolidated Subsidiaries 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 June 2012, the total amounts due from the Unconsolidated Subsidiaries to the Group and the Company of approximately HK$288,303,000 and HK$285,268,000 respectively, among which approximately HK$240,593,000 and HK$74,291,000 respectively are considered not recoverable and impairment losses have been recognised in the consolidated statement of comprehensive income for the year ended 30 June 2012. The Directors consider that the remaining balances of the amounts due from the Unconsolidated Subsidiaries to the Group and the Company of approximately HK$47,710,000 and HK$47,627,000 respectively could be recovered in full. Details of de-consolidation of the Unconsolidated Subsidiaries are set out in note 20 to the consolidated financial statements.

Due to the significance of the operations of the Unconsolidated Subsidiaries, any adjustments to the transactions asserted to have been undertaken by the Unconsolidated Subsidiaries may have a significant consequential effect on the net assets of the Group as at 30 June 2012 and the results of the Group for the year then ended.

In the opinion of the Directors, the consolidated financial statements as at 30 June 2012 and for the year 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".

## 3. 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 interpretations (collectively referred to as the "new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") which are effective for the Group's financial year beginning on 1 July 2011. A summary of the new and revised HKFRSs adopted by the Group is set out as follows:

| | |
|---|---|
| HKFRSs (Amendments) | Improvement to HKFRSs issued in 2010 |
| HKFRS 1 (Amendments) | Disclosures – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopter |
| HKFRS 7 (Amendments) | Disclosures – Transfer of Financial Assets |
| HKAS 24 (Revised) | Related party Disclosures |
| HK(IFRIC) – Int 14 (Amendments) | Prepayment of a Minimum Funding Requirement |

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 consolidated financial statements.

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

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

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

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

## 4. SEGMENT INFORMATION

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

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

**Continuing operations**

(i) Sales of beauty equipment

(ii) Sales of beauty products

(iii) Therapy services

**Discontinued operations**

(i) Royalty fee income

(ii) Provision of training courses

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

**For the year ended 30 June 2012**

| | Continuing operations | | | | Discontinued operations | | | |
|---|---|---|---|---|---|---|---|---|
| OPERATING SEGMENT | Sales of beauty equipment *HK$'000* | Sales of beauty products *HK$'000* | Therapy services *HK$'000* | Segment total *HK$'000* | Royalty fee income *HK$'000* | Provision of training courses *HK$'000* | Segment total *HK$'000* | Consolidated *HK$'000* |
| **REVENUE** | | | | | | | | |
| Revenue from external customers | – | 208 | 494 | 702 | – | – | – | 702 |
| **RESULTS** | | | | | | | | |
| Segment loss for reportable segment | – | (220) | (291) | (511) | – | – | – | (511) |
| Other revenue | | | | 987 | | | – | 987 |
| Unallocated administrative expenses | | | | (7,811) | | | – | (7,811) |
| Finance costs | | | | (520) | | | – | (520) |
| Loss before tax | | | | (7,855) | | | – | (7,855) |
| Income tax expense | | | | – | | | – | – |
| Core loss for the year | | | | (7,855) | | | – | (7,855) |
| **MAJOR NON-CASH ITEMS** | | | | | | | | |
| – Impairment loss recognised in respect of intangible assets | | | | (7,488) | | | – | (7,488) |
| – Impairment loss recognised in respect of deposits, prepayments and other receivables | | | | (240,593) | | | – | (240,593) |
| – Gain on de-consolidation of subsidiaries | | | | 155,547 | | | – | 155,547 |
| | | | | (100,389) | | | – | (100,389) |

For the year ended 30 June 2011

| OPERATING SEGMENT | Continuing operations Sales of beauty equipment *HK$'000* | Sales of beauty products *HK$'000* | Therapy services *HK$'000* | Segment total *HK$'000* | Discontinued operations Royalty fee income *HK$'000* | Provision of training courses *HK$'000* | Segment total *HK$'000* | Consolidated *HK$'000* |
|---|---|---|---|---|---|---|---|---|
| **REVENUE** | | | | | | | | |
| Revenue from external customers | 35,320 | 10,602 | 3,142 | 49,064 | 3,836 | 500 | 4,336 | 53,400 |
| **RESULTS** | | | | | | | | |
| Segment profit (loss) for reportable segment | 11,686 | (3,987) | (5,738) | 1,961 | 3,339 | 435 | 3,774 | 5,735 |
| Other revenue | | | | 312 | | | – | 312 |
| Unallocated administrative expenses | | | | (14,883) | | | – | (14,883) |
| Finance costs | | | | (7,043) | | | – | (7,043) |
| Loss before tax | | | | (19,653) | | | 3,774 | (15,879) |
| Income tax expense | | | | (6) | | | – | (6) |
| Core (loss) profit for the year | | | | (19,659) | | | 3,774 | (15,885) |
| **MAJOR NON-CASH ITEMS** | | | | | | | | |
| – Impairment loss recognised in respect of trade receivables | | | | (117,525) | | | – | (117,525) |
| – Impairment loss recognised in respect of deposits, prepayments and other receivables | | | | (52,135) | | | – | (52,135) |
| – Loss on de-consolidation of subsidiaries | | | | (135) | | | – | (135) |
| | | | | (189,454) | | | 3,774 | (185,680) |

### Segment assets and liabilities

| OPERATING SEGMENT | Continuing operations | | | | Discontinued operations | | | |
|---|---|---|---|---|---|---|---|---|
| | Sales of beauty equipment *HK$'000* | Sales of beauty products *HK$'000* | Therapy services *HK$'000* | Segment total *HK$'000* | Royalty fee income *HK$'000* | Provision of training courses *HK$'000* | Segment total *HK$'000* | Consolidated *HK$'000* |
| **2012** | | | | | | | | |
| **ASSETS** | | | | | | | | |
| Segment assets | **–** | **50** | **175** | **225** | **–** | **–** | **–** | **225** |
| Unallocated corporate assets | | | | | | | | **57,454** |
| Consolidated total assets | | | | | | | | **57,679** |
| **LIABILITIES** | | | | | | | | |
| Segment liabilities | **(380)** | **–** | **(171)** | **(551)** | **–** | **–** | **–** | **(551)** |
| Unallocated corporate liabilities | | | | | | | | **(31,655)** |
| Consolidated total liabilities | | | | | | | | **(32,206)** |
| Other segment information: | | | | | | | | |
| Additions of property, plant and equipment | | | | | | | | **3,299** |
| Depreciation | | | | | | | | **126** |

| OPERATING SEGMENT | Continuing operations | | | | Discontinued operations | | | |
|---|---|---|---|---|---|---|---|---|
| | Sales of beauty equipment *HK$'000* | Sales of beauty products *HK$'000* | Therapy services *HK$'000* | Segment total *HK$'000* | Royalty fee income *HK$'000* | Provision of training courses *HK$'000* | Segment total *HK$'000* | Consolidated *HK$'000* |
| 2011 | | | | | | | | |
| **ASSETS** | | | | | | | | |
| Segment assets | 46,004 | 27,702 | 561 | 74,267 | – | – | – | 74,267 |
| Unallocated corporate assets | | | | | | | | 59,943 |
| Consolidated total assets | | | | | | | | 134,210 |
| **LIABILITIES** | | | | | | | | |
| Segment liabilities | – | (2,210) | (4,269) | (6,479) | – | – | – | (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 |

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

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

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

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

**Geographical information**

The Group mainly operates in Hong Kong after de-consolidation of the Unconsolidated Subsidiaries. The Group's revenue from external customers and information about its non-current assets by geographical location are detailed below:

| | **Revenue from external customers** | | **Non-current assets** | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Hong Kong | **702** | 4,235 | **3,156** | 2,138 |
| The People's Republic of China (the "PRC") | **–** | 49,165 | **–** | – |
| | **702** | 53,400 | **3,156** | 2,138 |

**Information about major customer**

No other single customer contributed 10% more to the Group's revenue for the year ended 30 June 2012 (2011: HK$42,691,000).

## 5. TURNOVER

| | Note | 2012<br>HK$'000 | 2011<br>HK$'000<br>(Restated) |
|---|---|---|---|
| **Continuing operations** | | | |
| Sales of beauty equipment | | **–** | 35,320 |
| Sales of beauty products | | **208** | 10,602 |
| Therapy services | | **494** | 3,142 |
| | | **702** | 49,064 |
| **Discontinued operations** | | | |
| Royalty fee income | | **–** | 3,836 |
| Provision of training courses | | **–** | 500 |
| | *9* | **–** | 4,336 |

## 6. FINANCE COSTS

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| **Continuing operations** | | |
| Interest expenses on other borrowing *(note 17)* | **513** | – |
| Interest expenses on finance leases | **7** | – |
| Imputed interest on convertible bonds | **–** | 7,043 |
| | **520** | 7,043 |

*Note:*

Interest expenses on other borrowing were interest expenses on the loan advanced by Koffman Investment Limited ("Koffman") with a term of 3 months from 27 March 2012 at interest rate of 12% per annum. On 26 June 2012, 26 September 2012, 26 October 2012 and 26 November 2012, the Company has entered into four supplementary loan agreements with Koffman to extend the repayment date of the above loan from 27 June 2012 to 7 December 2012.

## 7. LOSS FOR THE YEAR

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Loss for the year from continuing operations has been arrived at after (charging) crediting: | | |
| Directors' remuneration | **(961)** | (2,889) |
| Other staff costs | **(2,784)** | (10,094) |
| Retirement benefit scheme contributions | **(96)** | (423) |
| Total staff costs | **(3,841)** | (13,406) |
| Amortisation of intangible assets | **–** | (936) |
| Auditors' remuneration | **(1,000)** | (1,000) |
| Depreciation | **(126)** | (718) |
| Gain (loss) on de-consolidation of subsidiaries | **155,547** | (135) |
| Impairment loss recognised in respect of trade receivables | **–** | (117,525) |
| Impairment loss recognised in respect of deposits, prepayments and other receivables | **(240,593)** | (52,135) |
| Impairment loss recognised in respect of intangible assets | **(7,488)** | – |
| Bank interest income | **–** | 1 |
| Written back of accruals and other payables | **–** | 257 |
| Written back of write down of inventories *(notes 12)* | **–** | 10 |
| Operating lease payment | **(572)** | (6,990) |

## 8. INCOME TAX EXPENSE

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Continuing operations** | | |
| The charge comprises of: | | |
| Current tax | | |
| Hong Kong | **–** | – |
| The PRC | **–** | 6 |
| | **–** | 6 |

Hong Kong Profits Tax is calculated at 16.5% (2011: 16.5%) of the estimated assessable profits for the year. The PRC subsidiaries are subject to the PRC Enterprise Income Tax at 25% for 2011. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

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

| | 2012<br>*HK$'000* | 2011<br>*HK$'000*<br>(Restated) |
|---|---|---|
| Loss before taxation from continuing operations | **(100,389)** | (189,448) |
| Tax at the Hong Kong Profits Tax rate of 16.5% (2011:16.5%) | **(16,564)** | (31,259) |
| Tax effect of non-deductible expenses | **40,939** | 28,138 |
| Tax effect of non-taxable revenues | **(25,672)** | (48) |
| Tax effect on temporary differences arising from accelerated depreciation allowance not recognised | **(217)** | (77) |
| Tax effect of tax loss not recognised | **1,514** | 3,244 |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **–** | 8 |
| Tax charge for the year | **–** | 6 |

At the end of the reporting period, the Group has unused estimated tax losses of approximately HK$36,618,000 (2011: HK$27,530,000) 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.

## 9. DISCONTINUED OPERATIONS

BSHK is principally engaged in the sales of beauty equipment, sales of beauty products, therapy services, granting of royalty in relation to the sales of beauty products and provision of training courses. Upon de-consolidation of BSHK, the Group has ceased the operations of granting of royalty in relation to the sales of beauty products and provision of training course. Accordingly, the operations of granting of royalty in relation to sales of beauty products and provision of training course are presented as discontinued operations in the consolidated financial statements. The results of the discontinued operations for the year ended 30 June 2012 and 2011, which have been included in the profit or loss are as follows:

| | *Note* | 2012<br>*HK$'000* | 2011<br>*HK$'000* |
|---|---|---|---|
| Turnover | *5* | **–** | 4,336 |
| Cost of sales | | **–** | – |
| Gross profit | | **–** | 4,336 |
| Selling and distribution costs | | **–** | (511) |
| Administrative expenses | | **–** | (51) |
| Profit before tax | | **–** | 3,774 |
| Income tax expense | | **–** | – |
| Profit for the year | | **–** | 3,774 |

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

## 10. DIVIDEND

The Directors do not recommend any payment of dividends for the year ended 30 June 2012 and 2011.

## 11. LOSS PER SHARE

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

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | | (Restated) |
| **For continuing and discontinued operations** | | |
| Loss for the purpose of basic and diluted loss per share: | | |
| Loss for the year attributable to owners of the Company | **(100,389)** | (185,680) |
| Number of shares: | | |
| Weighted average number of ordinary shares for the purpose of basic and diluted loss per share | **1,301,680,874** | 840,734,246 |
| **For continuing operations** | | |
| Loss for the purpose of basic and diluted loss per share: | | |
| Loss for the year attributable to owners of the Company | **(100,389)** | (189,454) |
| Number of shares: | | |
| Weighted average number of ordinary shares for the purpose of basic and diluted loss per share | **1,301,680,874** | 840,734,246 |

Diluted loss per share for the year ended 30 June 2012 and 2011 were the same as the basic loss per share as there was no diluting event for both years.

## 12. INVENTORIES

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Raw materials | **33** | 494 |
| Finished goods | **1,910** | 930 |
| Less: Provision for inventories | **–** | (449) |
| | **1,943** | 975 |

Movements in write down of inventories:

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Balance at beginning of the year | **(449)** | (459) |
| De-consolidation of subsidiaries | **449** | – |
| Written back on write down of inventories | **–** | 10 |
| | **–** | (449) |

## 13. TRADE RECEIVABLES

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | **–** | 120,842 |
| Less: Impairment loss recognised | **–** | (117,684) |
| | **–** | 3,158 |

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.

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:

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Aged: | | |
| 0 – 60 days | **–** | 3,055 |
| 61 – 120 days | **–** | 1 |
| 121 – 180 days | **–** | – |
| 181 – 365 days | **–** | 81 |
| Over 365 days | **–** | 21 |
| | **–** | 3,158 |

**Past due but not impaired**

Included in the Group's trade receivables balances are debts with carrying amount of approximately HK$ Nil (2011: HK$102,000) which were past due but not impaired at the end of the reporting period. In the opinion of the Directors, the amounts were considered recoverable in 2011. The Group does not hold any collateral over these balances.

**Age of receivables that are past due but not impaired**

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Aged: | | |
| 0 – 60 days | **–** | 2 |
| 61 – 120 days | **–** | 1 |
| 121 – 180 days | **–** | 78 |
| Over 180 days | **–** | 21 |
| | **–** | 102 |

**Impaired trade receivables**

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

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Balance at the beginning of the year | **117,684** | 159 |
| De-consolidation of the Unconsolidated Subsidiaries *(Note)* | **(117,684)** | – |
| Impairment loss recognised | **–** | 117,525 |
| Balance at the end of the year | **–** | 117,684 |

*Note:*

For the year ended 30 June 2012, due to the lack of complete books and records of the Unconsolidated Subsidiaries, the results, assets and liabilities of the Unconsolidated Subsidiaries have not been included into the consolidated financial statements of the Group since 1 July 2011. Accordingly trade receivables of the Unconsolidated Subsidiaries of approximately HK$120,842,000 and corresponding impairment loss of approximately HK$117,684,000 were not included in the consolidated financial statements.

## 14. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Deposits paid | **6,311** | 78,953 |
| Less: Impairment loss recognised | **(2,500)** | (32,500) |
| | **3,811** | 46,453 |
| Prepayments | **377** | 86,501 |
| Less: Impairment loss recognised | **–** | (14,500) |
| | **377** | 72,001 |
| Other receivables | **5,374** | 5,696 |
| Less: Impairment loss recognised | **(5,000)** | (5,135) |
| | **374** | 561 |
| Amounts due from the Unconsolidated Subsidiaries | **288,303** | – |
| Less: Impairment loss recognised | **(240,593)** | – |
| | **47,710** | – |
| | **52,272** | 119,015 |

## 15. DEPOSITS FROM CUSTOMERS

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Deposits from customers | **551** | 4,446 |

The deposits from customers represent the deposits paid by customers in advance for therapy services, beauty products and beauty equipment.

## 16. ACCRUALS AND OTHER PAYABLES

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Accruals | **2,911** | 5,786 |
| Other payables | **2,356** | 3,977 |
| Amounts due to the Unconsolidated Subsidiaries | **6,246** | – |
| | **11,513** | 9,763 |

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

## 17. OTHER BORROWING

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within one year | **19,586** | 2,000 |

Included in other borrowing of approximately HK$19,586,000 was a loan advanced by Koffman of which Mr. Yu Shu Kuen, an executive Director and the chairman, is the ultimate beneficial owner. On 27 March 2012, the Company has entered into a loan agreement with Koffman, pursuant to which, Koffman agreed to make available to the Company a loan facility up to HK$20,000,000 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 the loan.

On 26 June 2012, 26 September 2012, 26 October 2012 and 26 November 2012, the Company has entered into four supplementary loan agreements with Koffman to extend the repayment date of the above loan from 27 June 2012 to 7 December 2012. In additions, in accordance with the supplementary loan agreement dated 26 June 2012, the facility was increased to a principal amount of HK$50,000,000 provided that the Company fulfilled the condition as set out in the supplementary loan agreements.

## 18. OBLIGATION UNDER FINANCE LEASES

During the year, the Group has leased a motor vehicle and a digital photocopier under finance leases. The lease term is 5 years with a fixed interest rate of 2.75% per annum for the motor vehicle.

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Amounts payable under finance leases: | | | | |
| Within one year | **130** | – | **105** | – |
| More than one year and not more than five years | **491** | – | **449** | – |
| | **621** | – | **554** | – |
| Less: future finance charges | **(67)** | – | **–** | – |
| | **554** | – | **554** | – |
| Less: Amount due for settlement within 12 months (shown under current liabilities) | | | **(105)** | – |
| Amount due for settlement after 12 months | | | **449** | – |

The Group's obligation under finance leases is secured by the lessor's charge over the leased assets.

## 19. DE-CONSOLIDATION OF SUBSIDIARIES

As disclosed in Note 2 of the consolidated financial statements, the consolidated financial statements were prepared based on the books and records maintained by the Group. However, the directors and management of 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 year ended 30 June 2012. As such, the results, assets and liabilities of the Unconsolidated Subsidiaries have not been included into the consolidated financial statements of the Group since 1 July 2011. The resulting gain on de-consolidation, which is determined based on the net asset value of the Unconsolidated Subsidiaries 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.

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

**(a) The BSHK Group**

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

**(b) Clapton Holdings Limited**

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

**(c) Blu Spa Management Services Limited**

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

**(d) Blu Spa International Limited**

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

For the year ended 30 June 2011, 北京富麗花譜美容有限公司 ("北京富麗花") and 珠海富麗花化妝品有限公司 ("珠海富麗花") were de-consolidated as the net assets (liabilities) of these entities at 30 June 2011 are as follows:

**(a) 北京富麗花**

| | **Total** |
|---|---|
| | *HK$'000* |
| Net assets de-consolidated: | |
| Bank balances and cash | 213 |
| | 213 |
| Release of translation reserve upon de-consolidation | (8) |
| | 205 |
| Loss on de-consolidation | (205) |
| Total consideration | – |
| Net cash outflow arising on de-consolidation: | |
| Bank balances and cash de-consolidated of | (213) |

(b) 珠海富麗花

| | Total |
|---|---|
| | *HK$'000* |
| Net liabilities de-consolidated: | |
| Deposits, prepayment and other receivables | 40 |
| Amount due to a fellow subsidiary | (129) |
| Tax payables | (5) |
| | (94) |
| Release of translation reserve upon de-consolidation | 24 |
| | (70) |
| Gain on de-consolidation | 70 |
| Total consideration | – |
| Net cash outflow arising on de-consolidation: | |
| Bank balances and cash de-consolidated of | – |

## 20. MATERIAL RELATED PARTY TRANSACTIONS

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

| **Name of party** | **Nature of transactions** | **2012** | 2011 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| | | | (restated) |
| During the year, the Group entered into the following transactions with related parties: | | | |
| Koffman *(Note 1)* | Loan | **19,780** | – |
| | Settlement of Loan interest | **194** | – |
| BSHK *(Note 2)* | Purchases of products | **1,984** | – |
| | Rendering of management services | **986** | – |
| | Purchases of property, plant and equipment | **716** | – |
| Garrick International Limited ("Garrick") *(Note 3)* | Purchases of products | **–** | 40 |
| World Global International Enterprises Limited ("World Global") *(Note 3)* | Purchases of products | **–** | 26 |
| Ms. Chan Choi Har, Ivy *(Note 4)* | Rendering of therapy services and sales of beauty products | **–** | 31 |

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

| | | | |
|---|---|---|---|
| Koffman *(Note 1)* | Loan | **19,586** | – |

*Note:*

(1) Mr. Yu Shu Kuen, an executive Director and the chairman, is the ultimate beneficial owner of Koffman. Details of the transactions were set out in note 17 to the consolidated financial statements.

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

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

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

(4) Ms. Chan Choi Har, Ivy, resigned on 7 March 2012.

**Compensation for key management personnel**

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

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Short-term employee benefits | **1,203** | 4,063 |
| Post-employment benefits | **5** | 39 |
| | **1,208** | 4,102 |

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.

## 21. EVENTS AFTER REPORTING PERIOD

(a) As set out in the Company's announcement dated 18 July 2012, EDS Distribution limited ("EDS Distribution"), on 13 July 2012 a wholly owned subsidiary of the Company, has entered into the exclusive distribution agreement ("Exclusive Distribution Agreement") with Montaigne Limited ("Montaigne") on 13 July 2012. Pursuant to the Exclusive Distribution Agreement, Montaigne has 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 for a period of 1 years unless terminated by either party.

(b) On 13 July 2012, the Stock Exchange issued a letter to the Company setting out conditions which must be satisfied by the Company before the Stock Exchange considers any application for trading resumption. Details of which were set out in the Company's announcement dated 18 July 2012.

(c) On 16 July 2012, the Company appointed RSM Nelson Wheeler Corporate Advisory Limited as independent forensic accountants to address the conditions set out by the Stock Exchange in the Company's announcement dated 18 July 2012.

(d) On 26 June 2012, the Company has entered into an extension agreement with Koffman of which Mr. Yu Shu Kuen, an executive Director and the chairman, is the ultimate beneficial owner, for a loan in the principle sum increased to HK$50,000,000 from HK$20,000,000 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 in respect of this loan. Up to the date of this announcement, the total sum of loan borrowed from Koffman and interest repaid by the Company were approximately HK$19,780,000 and HK$194,000 respectively. Details of the agreement of this loan were set out in the Company's announcement dated 26 June 2012.

    On 26 September 2012, 26 October 2012 and 26 November 2012, the Company has entered into three supplementary loan agreements with Koffman to extend the repayment date of the above loan from 27 June 2012 to 7 December 2012. Details of the agreements were set out in the Company's announcements dated 26 September 2012, 26 October 2012 and 26 November 2012.

## FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 30 June 2012 (2011: Nil).

## EXTRACTED FROM INDEPENDENT AUDITORS' REPORT

The following paragraphs extracted from the independent auditors' report on the Group's financial statement for the year ended 30 June 2012.

## BASIS FOR DISCLAIMER OF OPINION

### (1) Opening balances and corresponding figures

Our audit opinion on the consolidated financial statements of the Group for the year ended 30 June 2011 (the "2011 Financial Statements"), which forms the basis for the corresponding figures presented in the current year's consolidated financial statements, was disclaimed because of the significance of the possible effect of the limitation on the scope of our audit and the material uncertainty in relation to going concern, details of which are set out in our independent auditors' report dated 8 June 2012. Accordingly, we were unable to form an opinion as to whether the 2011 Financial Statements gave a true and fair view of the state of affairs of the Group and of the Company as at 30 June 2011 and of the Group's results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

**(2) Scope limitation – Investments in unconsolidated subsidiaries**

As further explained in Note 2 to the consolidated financial statements, the Directors of the Company are unable to obtain complete books and records of Blu Spa (Hong Kong) Limited (the "BSHK") and its subsidiaries (the "BSHK Group"), Clapton Holdings Limited, Blu Spa International Limited and Blu Spa Management Services Limited (collectively referred to as the "Unconsolidated Subsidiaries"). Due to the lack of completed books and records of the Unconsolidated Subsidiaries, the financial statements of the Unconsolidated Subsidiaries have not been consolidated into the Group's consolidated financial statements for the year ended 30 June 2012.

The resulting gain on de-consolidation of the Unconsolidated Subsidiaries of approximately HK$155,547,000 have been recognised in the consolidated statement of comprehensive income of the Group for the year ended 30 June 2012

Whilst the Directors of the Company consider that the exclusion of the Unconsolidated Subsidiaries is the best way of presenting the Group's financial position, results and cash flows as at and for the year ended 30 June 2012 under these circumstances, the exclusion of the financial position, results and cash flows of these Unconsolidated Subsidiaries in the consolidated financial statements is a departure from the requirements of Hong Kong Accounting Standard 27 (Revised) "Consolidated and Separate Financial Statements" ("HKAS 27").

Due to the lack of completed books and records of the Unconsolidated Subsidiaries, we have not been able to obtain sufficient appropriate audit evidence and explanations to determine whether the carrying values of the investment in the Unconsolidated Subsidiaries and the resulting gain on de-consolidation of the Unconsolidated Subsidiaries were fairly stated. Any adjustment that might have been found to be necessary would have a consequential significant effect on the net assets of the Group as at 30 June 2012 and the loss and cash flows of the Group for the year ended 30 June 2012.

**(3) Scope of limitation – Balances with the Unconsolidated Subsidiaries**

As further explained in note 2 to the consolidated financial statements, the Group recorded amounts due from and amounts due to the Unconsolidated Subsidiaries of approximately HK$288,303,000 and HK$6,246,000 respectively as at 30 June 2012. The Company also recorded amounts due from the Unconsolidated Subsidiaries of approximately HK$285,268,000 as at 30 June 2012 (collectively referred as to the "Balances with the Unconsolidated Subsidiaries"). The directors of the Company are of the view that the carrying values of certain amounts due from the Unconsolidated Subsidiaries to the Group and the Company are not recoverable and recognised impairment losses of approximately HK$240,593,000 and HK$74,291,000 for the year ended 30 June 2012 respectively.

Due to the lack of completed books and records of the Unconsolidated Subsidiaries, we have not been able to obtain sufficient appropriate audit evidence to determine whether the Balances with the Unconsolidated Subsidiaries and the impairment losses recognised on the amounts due from the Unconsolidated Subsidiaries to the Group and the Company are fairly stated. Any adjustment that might have been found to be necessary would have a consequential significant effect on the net assets of the Group and the Company as at 30 June 2012 and the loss of the Group for the year ended 30 June 2012.

**(4) Material Uncertainty relating to the Investigation**

As disclosed in note 2 to the consolidated financial statements, the Company made an announcement on 18 July 2012 in respect of the appointment of an independent professional firm 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 in the our independent auditors' report dated 8 June 2012 on the 2011 Financial Statements (the "Investigation"). Up to the date of this report, the board of directors of the Company is still in the midst of considering the findings of the Investigation. Accordingly, there were no practical audit procedures that we could perform to ascertain the completeness, validity and accuracy of the transactions asserted to have been undertaken by the Unconsolidated Subsidiaries. Any adjustments or disclosures that might have been found to be necessary would have a consequential significant effect on the accounting treatment adopted by the Group in respect of those transactions, the opening balances and prior period corresponding amounts and the related disclosures thereof in the Group's consolidated financial statements.

**(5) Material uncertainties relating to the going concern basis**

As disclosed in Note 2 to the consolidated financial statements, the Group incurred a loss attributable to the owners of the Company of approximately HK$100,389,000 for the year ended 30 June 2012, which indicates the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

The consolidated financial statements have been prepared on a going concern basis, 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 amounts due from the Unconsolidated Subsidiaries of approximately HK$47,710,000; and (ii) the extension of repayment of loan facility of approximately HK$19,586,000 granted by a company owned by an executive director (the "Proposed Plans").

The consolidated financial statements do not include any adjustments that would result from a failure to attain favourable results of the Proposed Plans.

Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised at other than the amounts at which they are currently recorded in the 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, in view of the extent of the uncertainty relating to the outcome of the Proposed Plans, we disclaim our opinion in respect of the material uncertainty relating to the going concern.

## DISCLAIMER OF OPINION

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the 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 2012 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 4 abovementioned:

– 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.

## 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 2012.

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 Shu Kuen, 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 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.

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 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.

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 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 Castletop Assets Limited, Winner Century (Hong Kong) Limited, Star Beauty Group Holdings Limited, Star Beauty Canada Inc., Max-Gold Pacific Limited and Profit Full Global Limited have not been included in the consolidated financial information of the Group.

The consolidated loss attributable to shareholders of the Company amounted to approximately HK$100.4 million (2011: HK$185.7 million) for the year ended 30 June 2012. Such loss was mainly attributed to the combined effect of the impairment loss recognised in respect of intangible assets, impairment loss recognised in respect of deposits, prepayments and other receivables and gain on 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.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2012, the Group had total assets of approximately HK$57.7 million (2011: HK$134.2 million), including cash and bank balances of approximately HK$0.3 million (2011: HK$1.4 million).

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

**Capital Structure**

***(a) Placing of new shares***

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

***(b)*** As at 30 June 2012, the total borrowings of the Group amounted to approximately HK$19.6 million (2011: HK$2.0 million), representing the borrowing from Koffman of which was unsecured, at an interest rate of 12% per annum and repayable within one year.

**Gearing Ratio**

The gearing ratio, expressed as percentage of total borrowings to total assets, was 34.0% (2011: 1.5%). The deterioration in gearing ratio was mainly attributed to the increase in borrowings during the year under review.

**Charge on the Group's Assets**

At as 30 June 2012, the Group did not have any charge on its assets.

**Foreign Exchange Risk**

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

**Commitments**

As at 30 June 2012, the Group had operating lease commitments of approximately HK$7.4 million (2011: HK$8.1 million).

**Contingent Liabilities**

As at 30 June 2012, the Group had no contingent liabilities (2011: Nil)

**Employees**

As at 30 June 2012, the Group had 44 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 any new significant investment during the year ended 30 June 2012.

**Material Acquisition and Disposal of Subsidiaries and Affiliated Companies**

The Group did not make any material acquisitions and disposal of subsidiaries and affiliated companies for the year ended 30 June 2012.

**Future Plan for Material Investments and Capital Assets**

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

## 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$45,000,000.0 (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 of solicitors' cheque to the Plaintiff on the following specified dates:

   (a) HK$4,050,000.0 payable to the Plaintiff on 13 November 2012;

   (b) HK$1,597,808.2 payable to the Plaintiff on 13 November 2012;

   (c) HK$36,450,000.0 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$5,647,808.2 from the Defendant on 13 November 2012. On 30 November 2012, the Defendant defaulted to pay the HK$36,450,000.0 as stated in the Deed of Settlement and still defaults to pay such amount as at the date of this announcement. The Plaintiff will continue to proceed with the court action to recover the outstanding balance of the Claims.

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

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

## AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") with written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules. Following the removal of Mr. Cheng Hai, an independent non-executive Director, pursuant to a special resolution passed at the extraordinary 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.

As at 30 June 2012, Mr. Tam B Ray Billy and Mr. Chu Kin Wang Peleus were the members of the Audit Committee. Subsequent to the reporting period, Mr. Tse Joseph was appointed or 18 August 2012 to fill the vacancy in order to comply with the GEM Listing Rules. As at the date of this announcement, the Audit Committee comprises three independent non-executive Directors, namely Mr. Tam B Ray Billy, Mr. Chu Kin Wang Peleus and Mr. Tse Joseph. The Audit Committee has reviewed the audited consolidated annual results for the year ended 30 June 2012 and provided advice and comments thereon.

## CODE ON CORPORATE GOVERNANCE PRACTICES

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

### Chairman and Chief Executive

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

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

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

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

### Appointment, re-election and removal

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

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

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

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 announcement, 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.*

*This announcement 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.*