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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8176)

Annual Report 2012

* *For identification purpose only*

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

GEM has been 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.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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.

CONTENTS

COMPANY INFORMATION

BOARD OF DIRECTORS

Executive Directors:
Mr. Yu Shu Kuen
(Chairman and Managing Director)
Mr. Wang Xiaofei *(Mr. Lee Chan Wah as his alternate)*
Mr. Wang Shangzhong
Mr. Lee Chan Wah

Non-executive Director:
Mr. Du Juanhong

Independent non-executive Directors:
Mr. Tam B Ray Billy
Mr. Chu Kin Wang Peleus
Mr. Tse Joseph

COMPANY SECRETARY

Mr. Lee Chan Wah

COMPLIANCE OFFICER

Mr. Yu Shu Kuen

AUTHORISED REPRESENTATIVES

Mr. Yu Shu Kuen
Mr. Lee Chan Wah

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

AUDITORS

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

PRINCIPAL BANKER

China CITIC Bank International Limited

LEGAL ADVISORS

As to Hong Kong Law
Michael Li & Co

As to the Cayman Islands Law
Conyers Dill and Pearman

WEBSITE

www.china-au-group.com

STOCK CODE

8176

CHAIRMAN'S STATEMENT

Dear Shareholders,

During the year under review, the Board endeavoured to enforce the actions as mentioned in the 2011 annual report. Up to the date of this report, the Group continued to streamline its operations by terminating of five spa centres located at Central, Causeway Bay, West Kowloon, Cheung Sha Wan and Tai Kok Tsui respectively. In addition, the Group shall early terminate the operation of a spa centre located at Sheung Wan and terminate the operation of the hair rejuvenating centre located at Central upon expiration of the tenancy agreement. In addition, in July 2012, the Group explored other business opportunity by entering into an exclusive distribution agreement with Montaigne Limited, a skincare product manufacturer in France. Finally, the Board also tried its best effort to secure sufficient working capital for the Group by entering into short-term loan agreements and the realisation of the Group's salable assets, including but not limited to inventories, deposits, prepayments and other receivables, into cash in order to rationalise the future cash inflow.

An independent professional adviser issued a forensic investigation report on 28 September 2012 to address the reasons stated in the resignation letter by the Group's former auditors and the issues raised by the auditors in relation to the Group's consolidated financial statements for the year ended 30 June 2011. Having considered the findings of the forensic investigation report, the Board shall strive to enhance the Group's internal control system by way of the engagement of an independent professional adviser to conduct a review and provide recommendations for the improvement of the Group's internal control system.

Yu Shu Kuen
Chairman

Hong Kong, 6 December 2012

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 annual results announcement of the Company and its subsidiaries (collectively, the "Group") 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 Investment Limited ("Koffman"), of which Mr. Yu Shu Kuen ("Mr. Yu"), the chairman of the board of Directors (the "Board") 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 of the Company (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 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, HLB Hodgson Impey Cheng, 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 Hodgson Impey Cheng 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 Hodgson Impey Cheng; and

MANAGEMENT DISCUSSION AND ANALYSIS

(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 the applicable laws and regulations before resumption.

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

On 16 July 2012, the Company appointed RSM Nelson Wheeler Corporate Advisory Limited ("RSM") as the independent forensic accountants to address the conditions set out by the Stock Exchange. On 28 September 2012, a forensic investigation report (the "Forensic Investigation Report") was issued by RSM and the Company has submitted a copy of such report to the Stock Exchange on the same day. On 10 October 2012, the Special Investigation Committee has submitted the Forensic Investigation Report to the Board. 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 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, Blu Spa (Hong Kong) 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.

MANAGEMENT DISCUSSION AND ANALYSIS

The consolidated loss attributable to shareholders of the Company (the "Shareholders") 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.

MANAGEMENT DISCUSSION AND ANALYSIS

FOREIGN EXCHANGE RISK

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

COMMITMENTS

As at 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

MANAGEMENT DISCUSSION AND ANALYSIS

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 or 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; and

    (c) HK$36,450,000.0 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.

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 report. The Plaintiff will continue to proceed with the court action to recover the outstanding balance of the Claims.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

EXECUTIVE DIRECTORS

Mr. Yu, aged 44, joined the Company as executive Director and managing Director on 13 February 2012. He was appointed as the chairman of the Board (the "Chairman") on 16 August 2012. He is also the authorised representative, compliance officer, the chairman of the Special Investigation Committee, a member of each of the remuneration committee of the Company (the "Remuneration Committee") and the nomination committee of the Company (the "Nomination Committee"), and directors of various subsidiaries of the Company. Mr. Yu has over 20 years of experience in the finance industry. He graduated from University of Southern California with a Bachelor of Arts degree in Social Sciences and Communication (Economics) in 1991. After that, Mr. Yu had worked in the investment banking field in Hong Kong for about two years and he went on to start his own financial service business in 1996. Mr. Yu has then gained extensive experience in the investment field, including securities brokerage services, futures trading, corporate finance, property investment, corporate restructuring, asset recovery and liquidation exercises. He was an executive director of each of a securities dealing company from April 1996 to September 2004 and a future trading company from 1997 to April 2000. Mr. Yu also held a position of senior executive in a company listed on the Main Board of the Stock Exchange. He was an executive director of Infoserve Technology Corp., a company originally listed in Hong Kong and was delisted in May 2005, from November 2003 to January 2010. Mr. Yu was also appointed as an executive director and the managing director of M Dream Inworld Limited ("M Dream") (stock code: 8100), a company listed on GEM of the Stock Exchange, in January 2007 and was appointed as the chairman of the board of directors of M Dream in May 2008. He resigned from all his positions in M Dream in September 2009.

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

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

DIRECTORS AND SENIOR MANAGEMENT PROFILE

Mr. Lee Chan Wah ("Mr. Lee"), aged 44, was firstly appointed as the company secretary on 13 February 2012, then appointed as alternate Director to Mr. Wang XF and further appointed as executive Director on 16 August 2012. He is presently the financial controller, the authorised representative and directors of various subsidiaries of the Company. Mr. Lee has 20 years of experience in the field of auditing, accounting and finance. He holds a Bachelor of Business Administration degree from the Hong Kong Baptist University. He is a member of the Hong Kong Institute of Certified Public Accountants and a member of the Association of Chartered Certified Accountants. For the period from 10 November 2008 to 20 August 2009, he was an executive director of China Media and Films Holdings Limited (formerly known as "KH Investment Holdings Limited") (stock code: 8172). For the period from 22 June 2009 to 1 November 2009, he was an executive director of Zhi Cheng Holdings Limited (stock code: 8130). Both companies are listed on GEM of the Stock Exchange. For the period from 10 March 2009 to 1 March 2010, he was an independent non-executive director of Dore Holdings Limited (stock code: 628), a company listed on the Main Board of the Stock Exchange.

NON-EXECUTIVE DIRECTOR

Mr. Du Juanhong ("Mr. Du"), aged 35, joined the Company as the Chairman and a non-executive Director on 5 March 2012. He resigned as the Chairman on 16 August 2012 but remains as non-executive Director. Mr. Du has over 10 years of experience in sales and marketing. He holds a Bachelor degree in Engineering from Xi'an Jiaotong University and a Master degree in Public Administration from Fudan University. Mr. Du is currently the chairman of 上海里力電子有限公司 (Shanghai Lili Electronics Company Limited, being its unofficial English translation).

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

DIRECTORS AND SENIOR MANAGEMENT PROFILE

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

Mr. Tse Joseph ("Mr. Tse"), aged 37, joined the Company as independent non-executive Director on 16 August 2012. He is also a member of each of the Audit Committee, the Remuneration Committee and the Special Investigation Committee. Mr. Tse has extensive experiences in finance and accounting. He holds a Bachelor of Commerce-Accounting degree from the University of New South Wales and a Master degree in Financial Management from the University of London. Mr. Tse has worked in several banks such as The Bank of East Asia, Limited and The Hongkong and Shanghai Banking Corporation Limited.

SENIOR MANAGEMENT

Mr. Lee is the company secretary and the financial controller of the Company. Biographical details of Mr. Lee is set out in this section on page 11 of this report.

DIRECTORS' REPORT

The Board has pleasure in submitting the Directors' report together with the audited consolidated financial statements of the Group for the year ended 30 June 2012.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 37 to the financial statements. There was no significant change in the principal activities of the Company during the year under review.

RESULTS

Details of the Group's results for the year ended 30 June 2012 are set out in the consolidated statement of comprehensive income on page 37 of this report.

DIVIDENDS

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

PROPERTY, PLANT AND EQUIPMENT

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

FINANCIAL SUMMARY

The summary of the results and the assets and liabilities of the Group for the past five financial years is set out on page 108 of this report.

SHARE CAPITAL

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

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 40 and note 31 to the financial statements respectively.

DIRECTORS' REPORT

DISTRIBUTABLE RESERVE

The Company did not have any reserves available for distribution to the Shareholders as at 30 June 2012 (2011: Nil).

EVENTS AFTER REPORTING PERIOD

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

CHARITABLE DONATIONS

The Group did not make any charitable donations during the year (2011: Nil).

DIRECTORS

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

Executive Directors:
Mr. Yu *(Chairman)* (appointed as Executive Director and Managing Director on 13 February 2012 and subsequently appointed as Chairman on 16 August 2012)
Mr. Wang XF (appointed on 27 July 2011)
Mr. Wang SZ (appointed on 10 August 2011)
Mr. Lee (appointed on 16 August 2012)
Mr. Ji He Qun ("Mr. Ji") *(Chairman)* (resigned as Chairman on 6 October 2011 and retired as Executive Director on 27 July 2012)
Ms. Chan Choi Har, Ivy ("Ms. Chan") (resigned on 7 March 2012)
Mr. Gu Da Xin ("Mr. Gu") (resigned on 10 August 2011)

Non-executive Directors:
Mr. Du *(Chairman)* (appointed on 5 March 2012 and resigned as Chairman on 16 August 2012)
Mr. Cheung Tsun Hin, Samson ("Mr. Cheung") *(Vice Chairman)* (resigned on 13 February 2012)
Mr. Chan Shun Kuen, Eric ("Mr. Chan SK") (resigned on 13 February 2012)
Ms. Liu Xin ("Ms. Liu X") *(Chairman)* (appointed as Non-executive Director on 14 September 2011 and subsequently appointed as Chairman on 6 October 2011 and resigned on 5 March 2012)

Independent Non-executive Directors:
Mr. Tam (appointed on 5 March 2012)
Mr. Chu (appointed on 5 March 2012)
Mr. Tse (appointed on 16 August 2012)
Mr. Chan Sze Hon ("Mr. Chan") (resigned on 10 January 2012)
Mr. Lam Wai Pong ("Mr. Lam") (resigned on 31 January 2012)
Ms. Zhao Jing ("Ms. Zhao") (appointed on 14 September 2011 and resigned on 5 March 2012)
Ms. Liu Jiang ("Ms. Liu") (resigned on 10 August 2011)
Mr. Leung Yiu Cho ("Mr. Leung") (appointed on 12 January 2012 and resigned on 22 March 2012)
Mr. Cheng Hai ("Mr. Cheng") (appointed on 10 August 2011 and removed on 8 May 2012)

DIRECTORS' REPORT

In accordance with article 84(1) of the articles of association of the Company (the "Articles") Mr. Wang SZ and Mr. Du will retire from office by rotation at the forthcoming annual general meeting of the Company (the "AGM") and, being eligible, offer themselves for re-election, and in accordance with article 83(3) of the Articles, Mr. Lee will hold office only until the next following annual general meeting and Mr. Tse will hold office until the first general meeting of the Company after his appointment. Accordingly, they both, being eligible, will offer themselves for re-election at the AGM.

All the current non-executive Directors (including the independent non-executive Directors) have been appointed for a term of two years and subject to re-election.

DIRECTORS' SERVICE CONTRACTS

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

CONFIRMATION OF INDEPENDENCE

The Company has received annual written confirmations from Mr. Tam, Mr. Chu and Mr. Tse, being the independent non-executive Directors during the year under review, in respect of their independence pursuant to the GEM Listing Rules. In addition, based on the information that is publicly available to the Company, the Company was not aware of any change of circumstances which may affect the independence of the independent non-executive Directors. The Company considers all the independent non-executive Directors to be independent during the year ended 30 June 2012.

CHANGE OF COMPANY SECRETARY

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

DIRECTORS' REPORT

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

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

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

Name of Director	Nature of interests	Number of shares held	Approximate percentage of shareholding (Note 3)
Mr. Wang XF	Personal interest	230,400,000	17.56%
Mr. Du	Corporate interest	106,580,000 (Note 1)	8.12%
Mr. Ji	Personal interest	13,610,000	1.04%
	Family interest	1,760,000 (Note 2)	0.13%

Notes:

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

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

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

DIRECTORS' REPORT

Save as disclosed above, as at 30 June 2012, none of the Directors and the chief executive of the Company nor their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which 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.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

EMOLUMENT POLICY

The emoluments of employees of the Group were determined on the basis of their job responsibilities, work performance, professional experience and prevailing industry practices.

The emoluments of the Directors were determined with reference to their duties and responsibilities with the Company, the Company's performance, prevailing market conditions and the market emoluments for directors of other listed companies and reviewed by the Remuneration Committee.

Details of the emoluments of Directors and employees of the Group are set out in note 11 to the financial statements.

COMPETING INTERESTS

As at 30 June 2012, none of the Directors, substantial Shareholders 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.

DIRECTORS' REPORT

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

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

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

Name of Shareholder	Nature of interests	Number of shares 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 June 2012.

Save as disclosed above, as at 30 June 2012, so far as is known to the Directors and the chief executive of the Company, and based on the public records filed on the website of the Stock Exchange and records kept by the Company, no other person or corporation (other than the Directors and the chief executive of the Company) has interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, or, were directly or indirectly, interest in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other members of the Group.

OTHER INTERESTS DISCLOSEABLE UNDER THE SFO

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

DIRECTORS' REPORT

SHARE OPTION SCHEMES

On 30 January 2002, the Company adopted a share option scheme (the "Share Option Scheme") for the primary purpose of providing incentives or rewards to the Directors and employees of the Group and to recognise the contribution of such eligible persons to the growth of the Group. The Share Option Scheme expired on 29 January 2012 (the "Expiration Date"). No further options could thereafter be offered under the Share Option Scheme.

During the year under review, no share option was granted under the Share Option Scheme and there was no outstanding option under the Share Option Scheme at the beginning of the year and until the Expiration Date.

As at the date of this report, the Company did not have any share option scheme.

RETIREMENT BENEFITS SCHEME

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, the aggregate purchases attributable to the Group's largest supplier accounted for approximately 54% (2011: 47%) of the Group's total purchase for the year and the five largest suppliers taken together accounted for approximately 100% (2011: 98%) of the Group's total purchase for the year.

The five largest customers of the Group in aggregate accounted for less than 30% of the total sales.

None of the Directors, their associates, or any Shareholder (which to the knowledge of the Directors own more than 5% of the Company's issued share capital) has any interest in any of the Group's five largest suppliers and customers.

CONNECTED TRANSACTIONS

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

DIRECTORS' REPORT

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.

MANAGEMENT CONTRACTS

During the year under review, no management and administrative contracts regarding the entire or any major businesses of the Company have been entered into or have existed.

PRE-EMPTIVE RIGHTS

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

CORPORATE GOVERNANCE

The Company's corporate governance practices are set out in the Corporate Governance Report on pages 22 to 31 to this report.

DIRECTORS' REPORT

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Board, as at 6 December 2012, being the latest practicable date prior to the printing of this report, the Company has maintained a sufficient public float of at least 25% of the Company's issued shares.

AUDITORS

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

The accounts for the year were audited by HLB Hodgson Impey Cheng whose term of office will expire upon the AGM. In March 2012, the practice of HLB Hodgson Impey Cheng was reorganized as HLB Hodgson Impey Cheng Limited. A resolution for the appointment of HLB Hodgson Impey Cheng Limited as the auditors of the Company for the subsequent year is to be proposed at the AGM.

By order of the Board
China AU Group Holdings Limited

Yu Shu Kuen
Chairman

Hong Kong, 6 December 2012

CORPORATE GOVERNANCE REPORT

CODE ON CORPORATE GOVERNANCE PRACTICES

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

During the year under review and up to the date of this report, the Company has applied the principles as set out in the CG Code and Report that are considered to be relevant to the Company and has complied with most of the code provisions of the CG Code and Report save for certain deviations, detail of which will be explained in the relevant paragraphs in this report.

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

SECURITIES TRANSACTIONS BY DIRECTORS

During the year under review, the Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all the Directors, save as Mr. Ji, Mr. Chan SK, Ms. Liu X, Mr. Chan, Mr. Cheng, Mr. Lam, Ms. Liu, Mr. Gu and Ms. Zhao, all Directors have confirmed that they have complied with such code of conduct and the required standard of dealings on Directors' securities transactions. In addition, based on the information that is publicly available to the Company, the Company was not aware of any non-compliance with the required standard of dealings and the code of conduct regarding securities transactions by Directors.

THE BOARD

Responsibilities

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

CORPORATE GOVERNANCE REPORT

Composition

As at the date of this report, the Board comprises eight Directors and their respective roles are set out as follows:

Executive Directors
Mr. Yu *(Chairman and Managing Director)*
Mr. Wang XF
Mr. Wang SZ
Mr. Lee (appointed on 16 August 2012) *(as Alternate Director to Mr. Wang XF)*

Non-executive Director
Mr. Du

Independent Non-executive Directors
Mr. Tam
Mr. Chu
Mr. Tse (appointed on 16 August 2012)

One of the independent non-executive Directors has appropriate professional qualifications, or accounting or related financial management expertise. Following the removal of Mr. Cheng, an independent non-executive Director, pursuant to a special resolution passed at the extraordinary general meeting held on 8 May 2012, the number of independent non-executive Directors fell below the requirement pursuant to Rule 5.05(1) of the GEM Listing Rules. Mr. Tse was appointed as independent non-executive Director to fill the vacancy on 16 August 2012 in order to comply with the GEM Listing Rules.

The Board members have no financial, business, family or other material/relevant relationship with each other.

Biographical details of the Directors are set out in the section of Directors and Senior Management Profile on pages 10 to 12 of this report.

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

CORPORATE GOVERNANCE REPORT

Pursuant to the code provision A.1.8 of the CG Code and Report, the Company should arrange appropriate insurance to cover potential legal actions against its directors. The Company is still arranging for appropriate liability insurance for the Directors for indemnifying their liabilities arising from corporate activities.

Appointments, re-election and removal

The Board has established a nomination committee on 27 March 2012 with details set out in the section of "Nomination Committee" on page 26 of this report.

According to the Articles, the Board may from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Board Meetings

The Board regularly meets in person or through other electronic means of communication at least four times every year to determine overall strategic direction and objectives and approve quarterly, interim and annual results, and other significant matters. At least 7 business days' notice of regular Board meeting are given to all Directors, who are all given an opportunity to attend and include matters in the agenda for discussion. Apart from regular meetings, senior management from time to time provides Directors information on activities and development of the businesses of the Group. The company secretary takes detailed minutes of the meetings and keeps records of matters discussed and decision resolved at the meetings. Individual attendance records of each Director at the respective Board and committee meetings are set out in the table on page 28 of this report.

Directors' Training

Pursuant to code provision A.6.5 of the CG Code and Report, which has come into effect from 1 April 2012, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. Up to the date of this report, all Directors have participated in continuous professional development by attending training course on the topics related to corporate governance and regulations.

CORPORATE GOVERNANCE REPORT

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. Since then, the position of chief executive officer remains vacant.

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

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

NON-EXECUTIVE DIRECTOR AND INDEPENDENT NON-EXECUTIVE DIRECTORS

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. Du, Mr. Tam and Mr. Chu, 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 Articles. 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 (including the independent non-executive Directors) have been appointed for a term of two years and subject to re-election.

The Company has received annual written confirmations from Mr. Tam, Mr. Chu and Mr. Tse, being the independent non-executive Directors during the year under review, in respect of their independence pursuant to the GEM Listing Rules. In addition, based on the information that is publicly available to the Company, the Company was not aware of any change of circumstances which may affect the independence of the independent non-executive Directors. The Company considers the independent non-executive Directors to be independent.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEE

Remuneration Committee

The Company has established the Remuneration Committee with written terms of reference in compliance with the GEM Listing Rules. The principal responsibilities of the Remuneration Committee include making recommendation to the Board on the Group's policies and structure for all remuneration of Directors and senior management, determining specific remuneration packages of all executive Directors and senior managements, and reviewing and approving performance-based remuneration.

As at 30 June 2012, the Remuneration Committee consists of one independent non-executive Director, namely, Mr. Chu (chairman of the committee) and one executive Director, namely, Mr. Yu. Following the removal of Mr. Cheng, an independent non-executive Director, pursuant to a special resolution passed at the extraordinary general meeting held on 8 May 2012, the number of Remuneration Committee members fell below the requirement pursuant to the terms of reference.

As at the date of this report, the Remuneration Committee comprises two independent non-executive Directors, namely, Mr. Chu (chairman of the committee) and Mr. Tse and one executive Director, namely, Mr. Yu.

The Remuneration Committee did not hold any meeting during the year ended 30 June 2012.

Nomination Committee

Prior to the establishment of the Nomination Committee, the appointment of new Director(s) is a matter for consideration and decision by the Board. In considering the nomination of a new Director or where vacancies on the Board exist, the Board will take into account the skills, qualification, working experience, professional knowledge, leadership and personal integrity of the candidates.

The Company established the Nomination Committee with written terms of reference in compliance with the GEM Listing Rules with effect from 27 March 2012. The principal responsibilities of the Nomination Committee include reviewing the structure, size and composition of the Board, identification of individuals suitably qualified to become Board members and making recommendations to the Board on the selection of individuals nominated for directorships, assessing the independence of independent non-executive Directors and making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors.

As at 30 June 2012 and up to date of this report, the Nomination Committee consists of two independent non-executive Directors, namely, Mr. Chu (chairman of the committee) and Mr. Tam and one executive Director, namely, Mr. Yu.

The Nomination Committee did not hold any meeting during the year ended 30 June 2012.

CORPORATE GOVERNANCE REPORT

Audit Committee

The Company has established the Audit Committee with written terms of reference in compliance with the GEM Listing Rules. The principal responsibilities of the Audit Committee include reviewing the financial statements and reports and considering any significant or unusual items raised by the compliance officer or external auditors before submission to the Board, reviewing the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and making recommendation to the Board on the appointment, re-appointment and removal of external auditors and reviewing the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

As at 30 June 2012, the Audit Committee consists of two independent non-executive Directors, namely, Mr. Chu (chairman of the committee) and Mr. Tam. Following the removal of Mr. Cheng, an independent non-executive Director, pursuant to a special resolution passed at the extraordinary general meeting held on 8 May 2012, the number of Audit Committee members fell below the requirements pursuant to Rule 5.28 of the GEM Listing Rules.

As at the date of this report, the Audit Committee comprises three independent non-executive Directors, namely, Mr. Chu (chairman of the committee), Mr. Tam and Mr. Tse.

The Audit Committee held 1 meeting during the year ended 30 June 2012, to review the financial results and reports, financial reporting and compliance procedures, report on the Company's internal control and risk management review and processes as well as the re-appointment of the external auditors.

The Audit Committee has reviewed the audited consolidated annual results for the year ended 30 June 2012 and provided advice and comments thereon.

The accounts for the year were audited by HLB Hodgson Impey Cheng whose term of office will expire upon the AGM. In March 2012, the practice of HLB Hodgson Impey Cheng was reorganized as HLB Hodgson Impey Cheng Limited. The Audit Committee has recommended to the Board that HLB Hodgson Impey Cheng Limited be nominated for appointment as the auditors of the Company at the AGM.

CORPORATE GOVERNANCE REPORT

DIRECTORS' ATTENDANCE RECORD AT MEETINGS

Details of the attendance of the Directors at the meetings of the Board and its respective committees during the year ended 30 June 2012 are as follows:

Name of Director	Note	Board Meeting Attended/ Eligible to attend	Audit Committee Meeting Attended/ Eligible to attend	Remuneration Committee Meeting Attended/ Eligible to attend	Nomination Committee Meeting Attended/ Eligible to attend	Extraordinary General Meeting Attended/ Eligible to attend
Executive Directors						
Mr. Yu	1	12/12	–	0/0	0/0	1/1
Mr. Wang XF	2	23/26	–	–	–	1/1
Mr. Wang SZ	4	22/23	–	–	–	1/1
Mr. Ji		13/27	–	–	–	1/1
Ms. Chan	5	17/18	–	–	–	–
Mr. Gu	6	0/4	–	–	–	–
Alternate Director						
Mr. Lee *(as Alternate Director to Mr. Wang XF)*	3	3/3	–	–	–	–
Non-executive Directors						
Mr. Du	7	10/10	–	–	–	1/1
Mr. Cheung	8	15/15	–	–	–	–
Mr. Chan SK	9	14/15	–	–	–	–
Ms. Liu X	10	0/9	–	–	–	–
Independent Non-executive Directors						
Mr. Tam	11	10/10	1/1	–	0/0	0/1
Mr. Chu	12	10/10	1/1	0/0	0/0	0/1
Mr. Chan	13	7/12	0/0	0/0	–	–
Mr. Lam	14	11/13	0/0	0/0	–	–
Ms. Zhao	15	2/9	0/0	–	–	–
Ms. Liu	16	0/4	0/0	0/0	–	–
Mr. Leung	17	5/6	0/0	0/0	–	–
Mr. Cheng	18	3/20	0/0	0/0	–	0/1

CORPORATE GOVERNANCE REPORT

Notes:

1. Mr. Yu was appointed with effect from 13 February 2012.
2. Mr. Wang XF was appointed with effect from 27 July 2011.
3. Mr. Lee was appointed with effect from 5 March 2012.
4. Mr. Wang SZ was appointed with effect from 10 August 2011.
5. Ms. Chan resigned with effect from 7 March 2012.
6. Mr. Gu resigned with effect from 10 August 2011.
7. Mr. Du was appointed with effect from 5 March 2012.
8. Mr. Cheung resigned with effect from 13 February 2012.
9. Mr. Chan SK resigned with effect from 13 February 2012.
10. Ms. Liu X was appointed with effect from 14 September 2011 and resigned with effect from 5 March 2012.
11. Mr. Tam was appointed with effect from 5 March 2012.
12. Mr. Chu was appointed with effect from 5 March 2012.
13. Mr. Chan resigned with effect from 10 January 2012.
14. Mr. Lam resigned with effect from 31 January 2012.
15. Ms. Zhao was appointed with effect from 14 September 2011 and resigned with effect from 5 March 2012.
16. Ms. Liu was appointed with effect from 4 March 2011 and resigned with effect from 10 August 2011.
17. Mr. Leung was appointed with effect from 12 January 2012 and resigned with effect from 22 March 2012.
18. Mr. Cheng was appointed with effect from 10 August 2011 and removed from office after the conclusion of the extraordinary general meeting held on 8 May 2012.

There was no annual general meeting held during the year ended 30 June 2012.

AUDITORS' REMUNERATION

The remuneration in respect of the services provided by the Company's external auditor, HLB Hodgson Impey Cheng, is analysed as follows:

	2012	2011
	HK$'000	*HK$'000*
Services rendered:		
Audit services	**1,000**	1,000
Other services	**Nil**	Nil

FINANCIAL REPORTING

Code provision C.1.2 of the CG Code and Report, became effective on 1 April 2012, stipulates that management should provide all members of the Board with monthly updates giving balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail.

During the period from 1 April 2012 to 30 June 2012, the management of the Company did not provide monthly updates to all members of the Board, as all the executive Directors were involved in the daily operation of the Group and were fully aware of the performance, position and prospects, and the management of the Company has provided to all Directors (including non-executive Directors and independent non-executive Directors) quarterly updates of the Company's performance, position and prospects in sufficient details during the regular Board meetings of the Company.

In addition, the management has provided all members of the Board, in a timely manner, updates on any material changes to the performance, position and prospects of the Company and sufficient information for matters brought before the Board.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

INTERNAL CONTROL

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

On 7 March 2012, the former auditors of the Company, HLM tendered their resignation as the external auditors of the Group. HLB Hodgson Impey Cheng had been appointed as the external auditors of the Group with effect from 7 March 2012 to fill the casual vacancy following the resignation of HLM and to hold office until the conclusion of the next annual general meeting. In view of the reasons for resignation as set out in the resignation letter issued by HLM to the Board on 7 March 2012, the Board has resolved on 7 March 2012 to establish the Special Investigation Committee, comprising the two members of the Audit Committee and an executive Director, for the purpose of, (i) investigating the issues raised by HLM in their resignation letter; (ii) reviewing the internal control procedures and corporate governance policies of the Group; and (iii) making recommendation to the Board on appropriate actions to be taken. The Special Investigation Committee is authorized to appoint independent professional advisers (including but not limited to accountants and legal advisers) to assist in the investigation of the issues raised by HLM in their resignation letter and to review the internal control procedures and corporate governance policies of the Group. On 8 June 2012, the Company published the annual results announcement for the year ended 30 June 2011 in which a disclaimer of opinion was issued by HLB Hodgson Impey Cheng in the independent auditors' report. On 16 July 2012, the Company appointed RSM as the independent forensic accountants to address all the issues raised in the HLM's resignation letter and the audit qualifications made by HLB Hodgson Impey Cheng in its independent auditors' report. On 28 September 2012, the Forensic Investigation Report was issued by RSM and the Company has submitted a copy of the Forensic Investigation Report to the Stock Exchange on the same day. On 10 October 2012, the Special Investigation Committee has submitted the Forensic Investigation Report to the Board. Having considered the findings of the Forensic Investigation Report, the Board shall strive to enhance the Group's internal control system by way of the engagement of an independent professional adviser to conduct a review and provide recommendations for the improvement of the Group's internal control system.

CORPORATE GOVERNANCE REPORT

COMPANY SECRETARY

Mr. Lee was appointed as the company secretary of the Company with effect from 13 February 2012. He is responsible to the Board for ensuring the board procedures are followed and that the Board is fully briefed on all legislative, regulatory and corporate governance developments. Mr. Lee is also directly responsible for the Group's compliance with the continuing obligation of the GEM Listing Rules, Codes on Takeovers and Mergers and Share Repurchases, Companies Ordinance, Securities and Futures Ordinance and other applicable laws, rules and regulations.

He is also the financial controller, the alternate Director to Mr. Wang XF and the executive Director. The biographical details of Mr. Lee is set out in the section of Directors and Senior Management Profiles on page 11 of this report. Up to the date of this report, Mr. Lee has undertaken not less than 15 hours of relevant professional training.

SHAREHOLDERS' RIGHTS

Annual report, interim report and quarterly reports offer comprehensive information to the Shareholders on operational and financial performance whereas annual general meetings provide a forum for the Shareholders to exchange views directly with the Board. The general meetings of the Company provide an opportunity for communication between the Shareholders and the Board. The Chairman and a member of the Audit Committee attended the 2011 annual general meeting to answer questions at the meeting.

According to the Articles, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meeting of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. The requisition must be lodged with the Company's principal place of business in Hong Kong.

As regards proposing a person for election as a Director, please refer to the procedures as set out in (i) the Articles available on the websites of the Company and the Stock Exchange; and (ii) the guidelines entitled "Procedures for Shareholders to propose a person for election as a Director" on the website of the Company.

Shareholders may at any time send their enquiries and concerns to the Board in writing to the company secretary at the Company's office in Hong Kong at Unit B, 9/F., The Grande Building, 398 Kwun Tong Road, Kowloon, Hong Kong.

INVESTOR RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with Shareholders and in particular, through annual general meetings and other general meetings.

At the extraordinary general meeting of the Company held on 8 May 2012, the Shareholders approved the amendments to the memorandum and Articles so as to incorporates up-to-date corporate information of the Company and adhere to the amended GEM Listing Rules took effect on 1 January 2012 and 1 April 2012. The amendments to the memorandum and Articles were detailed in the circular of the Company dated 10 April 2012 which was available on the websites of the Company and the Stock Exchange.

INDEPENDENT AUDITORS' REPORT

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

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

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

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENT

We were engaged to audit the consolidated financial statements of China AU Group Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 37 to 107, which comprise the consolidated and company statements of financial position at 30 June 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

INDEPENDENT AUDITORS' REPORT

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 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 lack of complete books and records of the Unconsolidated Subsidiaries, the financial statements of the Unconsolidated Subsidiaries have not been consolidated into the Group's 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 has 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 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".

Due to lack of complete 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 investments in the Unconsolidated Subsidiaries and the resulting gain on de-consolidation of the Unconsolidated Subsidiaries were fairly stated. Any adjustments that might have been found to be necessary would have a consequential significant effect on the net assets of the Group at 30 June 2012 and the loss and cash flows of the Group for the year ended 30 June 2012.

INDEPENDENT AUDITORS' REPORT

BASIS FOR DISCLAIMER OF OPINION (Continued)

(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 at 30 June 2012. The Company also recorded amounts due from the Unconsolidated Subsidiaries of approximately HK$285,268,000 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 lack of complete books and records of the Unconsolidated Subsidiaries, we have not been able to obtain sufficient appropriate audit evidence to determine whether the Balances with the Unconsolidated Subsidiaries and the impairment losses recognised on the amounts due from the Unconsolidated Subsidiaries to the Group and the Company are fairly stated. Any adjustments that might have been found to be necessary would have a consequential significant effect on the net assets of the Group and the Company 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 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 treatments 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.

INDEPENDENT AUDITORS' REPORT

BASIS FOR DISCLAIMER OF OPINION (Continued)

(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 and 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 outcomes 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.

INDEPENDENT AUDITORS' REPORT

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 above mentioned:

– 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.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 6 December 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2012

	notes	**2012** ***HK$'000***	2011 *HK$'000* (Restated)
Continuing operations			
Turnover	8	**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 asset	17	**(7,488)**	–
Impairment loss recognised in respect of trade receivables	21	**–**	(117,525)
Impairment loss recognised in respect of deposits, prepayments and other receivables	22	**(240,593)**	(52,135)
Gain (loss) on de-consolidation of subsidiaries	32	**155,547**	(135)
Finance costs	10	**(520)**	(7,043)
Loss before tax		**(100,389)**	(189,448)
Income tax expense	12	**–**	(6)
Loss for the year from continuing operations		**(100,389)**	(189,454)
Discontinued operations			
Profit for the year from discontinued operations	13	**–**	3,774
Loss for the year	14	**(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	32	**4**	16
Other comprehensive income for the year		**4**	17
Total comprehensive expense for the year		**(100,385)**	(185,663)
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)	16		
From continuing and discontinued operations			
– Basic and diluted		**(7.71)**	(22.09)
From continuing operations			
– Basic and diluted		**(7.71)**	(22.53)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2012

	notes	2012 HK$'000	2011 HK$'000
Non-current assets			
Intangible asset	17	–	7,488
Property, plant and equipment	18	3,156	2,138
		3,156	9,626
Current assets			
Inventories	20	1,943	975
Trade receivables	21	–	3,158
Deposits, prepayments and other receivables	22	52,272	119,015
Bank balances and cash	23	308	1,436
		54,523	124,584
Current liabilities			
Amount due to a former director	24	64	219
Amounts due to related companies	25	–	2,033
Amount due to a related party	25	–	385
Deposits from customers	26	551	4,446
Accruals and other payables	27	11,451	9,763
Obligation under financial leases	28	105	–
Other borrowing	29	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	28	449	–
Net assets		25,473	109,770
Equity attributable to owners of the Company			
Share capital	30	131,220	120,220
Reserves		(105,747)	(10,450)
Total equity		25,473	109,770

Approved and authorised for issue by the Board of Directors on 6 December 2012 and are signed on its behalf by:

Yu Shu Kuen
Director

Lee Chan Wah
Director

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

STATEMENT OF FINANCIAL POSITION

At 30 June 2012

	notes	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	18	**1,815**	–
Interests in subsidiaries	19	**3,557**	98,312
		5,372	98,312
Current assets			
Deposits, prepayments and other receivables	22	**47,786**	–
Bank balances	23	**162**	1,401
		47,948	1,401
Current liabilities			
Amount due to a former director	24	**64**	82
Accruals and other payables	27	**4,703**	4,675
Obligation under finance lease	28	**97**	–
Other borrowing	29	**19,586**	2,000
		24,450	6,757
Net current assets (liabilities)		**23,498**	(5,356)
Total assets less current liabilities		**28,870**	92,956
Non-current liability			
Obligation under finance lease	28	**417**	–
Net assets		**28,453**	92,956
Equity attributable to owners of the Company			
Share capital	30	**131,220**	120,220
Reserves	31	**(102,767)**	(27,264)
Total equity		**28,453**	92,956

Approved and authorised for issue by the Board of Directors on 6 December 2012 and are signed on its behalf by:

Yu Shu Kuen
Director

Lee Chan Wah
Director

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 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.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2012

	2012 **HK$'000**	2011 HK$'000
Operating activities		
(Loss) profit before tax:		
– Continuing operations	**(100,389)**	(189,448)
– Discontinued operations	**–**	3,774
	(100,389)	(185,674)
Adjustments for:		
Interest income	**–**	(1)
Imputed interest on convertible bonds	**–**	7,043
Interest expenses	**520**	–
Depreciation on property, plant and equipment	**126**	718
Amortisation of intangible asset	**–**	936
(Gain) loss on de-consolidation of subsidiaries	**(155,547)**	135
Impairment loss recognised in respect of intangible asset	**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
Written back of accruals and other payables	**–**	(257)
Written back of write down of inventories	**–**	(10)
Operating cash flows before movements in working capital	**(7,209)**	(7,450)
Increase in inventories	**(1,943)**	(515)
Increase in trade receivables	**–**	(36,943)
(Increase) decrease in deposits, prepayments and other receivables	**(28,312)**	10,065
Increase in accruals and other payables	**5,443**	6,924
(Decrease) increase in amount due to a former director	**(18)**	104
Decrease in amounts due to related companies	**–**	(2,930)
Increase in amount due to a related party	**–**	262
Increase in deposits from customers	**551**	1,531
Cash used in operating activities	**(31,488)**	(28,952)
Interest paid	**(520)**	–
Interest received	**–**	1
Tax paid	**–**	(1,810)
Net cash used in operating activities	**(32,008)**	(30,761)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2012

	2012 HK$'000	2011 HK$'000
Investing activities		
Net cash outflows from de-consolidation of subsidiaries	**(66)**	(213)
Proceeds from disposal of property, plant and equipment	**17**	–
Purchases of property, plant and equipment	**(2,719)**	(180)
Net cash used in investing activities	**(2,768)**	(393)
Financing activities		
Proceeds from borrowing	**19,780**	2,000
Repayment of borrowing	**(2,194)**	–
Proceed from issue of new shares	**16,500**	30,000
Payment of transaction costs attributable to issue of shares	**(412)**	(1,163)
Repayment of obligation under finance leases	**(26)**	–
Net cash generated from financing activities	**33,648**	30,837
Net decrease in cash and cash equivalents	**(1,128)**	(317)
Cash and cash equivalents at 1 July	**1,436**	1,752
Effect of foreign exchange rate changes	**–**	1
Cash and cash equivalents at 30 June	**308**	1,436
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**308**	1,436

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

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 of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and the principal place of business of the Company in Hong Kong are disclosed in the corporate information to the annual report.

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

The Company is an investment holding company and the principal activities of its principal subsidiaries are disclosed in note 37.

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") and accounting principles generally accepted in Hong Kong, except for non-consolidation of certain subsidiaries of the Group as explained below. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise of the Stock Exchange (the "GEM Listing Rules") and the disclosure requirements of the Hong Kong Companies Ordinance.

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

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

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 of the Company ("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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

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

Going Concern basis (Continued)

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 (the "BSHK") of approximately HK$47,710,000; (ii) the extension of repayment of a loan facility of approximately 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 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 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 auditor; and

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

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

Material Uncertainty relating to the Investigation (Continued)

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

As a result, the Company had appointed RSM Nelson Wheeler Corporate Advisory Limited to conduct a forensic investigation to address (i) all the issues raised by the predecessor auditors in their resignation letter dated 7 March 2012; and (ii) all the issues raised by the Company's current auditors in its independent auditors' report dated 8 June 2012. Up to the date of this report, the Board is still in 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 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 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, at 30 June 2012, the 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 32 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

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

Subsidiaries not consolidated (Continued)

In the opinion of the Directors, the consolidated financial statements 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 (THE "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 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 consolidated financial statements and/or disclosures set out in these consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

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

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 Disclosure 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	Disclosure 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies are set out below.

(a) Basis of consolidation

Subsidiaries

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of consolidation (Continued)

Transactions with non-controlling interests

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

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

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

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

(b) Excess of the Group's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisition")

A discount on acquisition arising on an acquisition of a subsidiary or an associate represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition arising on an acquisition of a subsidiary is recognised immediately in profit or loss. A discount on acquisition arising on an acquisition of an associate is recognised as income in the determination of the Group's share of results of the associate in which the investment is acquired.

(c) Inventory

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Impairment losses (other than goodwill, intangible assets with indefinite useful lives)

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

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

(e) Property, plant and equipment

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

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

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

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

(f) Intangible asset

Trademark

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Financial instruments

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

Financial assets

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

Effective interest method

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

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

Loans and receivables

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

Impairment of financial assets

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Financial instruments (Continued)

Financial assets *(Continued)*

Impairment of financial assets (Continued)

Objective evidence of impairment could include:

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Financial instruments (Continued)

Financial liabilities and equity

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

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

Effective interest method

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

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

Other financial liabilities

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

Equity instruments

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

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Financial instruments (Continued)

Derecognition

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

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

(h) Revenue recognition

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Taxation

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Leasing

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

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

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

(k) Foreign currencies

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Foreign currencies (Continued)

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Borrowing costs

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

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

(m) Retirement benefits costs

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

(n) Provisions

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

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

(o) Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

(1) has control or joint control over the Group;

(2) has significant influence over the Group; or

(3) is a member of the key management personnel of the Group or the Group's parent.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Related parties (Continued)

(ii) An entity is related to the Group if any of the following conditions applies:

(1) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(2) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(3) both entities are joint ventures of the same third party.

(4) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(5) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(6) the entity is controlled or jointly controlled by a person identified in (i).

(7) a person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(p) Contingent liabilities and assets

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgments in applying accounting policies

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

Useful lives of property, plant and equipment

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

Impairment loss of trade receivables

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

Impairment loss of intangible assets

The Group performs annual tests on whether there has been impairment of intangible assets in accordance with the accounting policy stated in note 4(f). The recoverable amounts are determined based on value-in-use calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the business, pre-tax discount rates, and other assumptions underlying the value-in-use calculations.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

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

Critical judgments in applying accounting policies (Continued)

Net realised value of inventories

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

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$000*
Financial assets				
Loans and receivables (including bank balances and cash)	**52,203**	51,608	**51,501**	1,401
Financial liabilities				
Amortised cost	**32,206**	18,846	**24,867**	6,757

(b) Financial risk management objectives and policies

The Group's and the Company's major financial instruments include, deposits and other receivables, bank balances and cash, deposits from customers, accruals and other payables, other borrowing, obligation under finance leases and amount due to a former director/related parties. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the polices on how to mitigate these risks are set out below. The management manages and monitors these exposures closely to ensure appropriate measures are implemented on a timely and effective manner.

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

6. FINANCIAL INSTRUMENTS (Continued)

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

Market risk

(i) Currency risk

For the year ended 30 June 2012, the Group mainly operate in Hong Kong and no any foreign currency risk. For the year ended 30 June 2011, the Group was exposed to foreign exchange risk arising primarily from fee receivables denominated in Renminbi ("RMB") and Taiwan dollar ("TWD"). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations which are denominated in a currency that is not the entity's functional currency. The Group currently does not have a foreign currency hedging policy in respect of foreign current assets and liabilities. The Group will monitor its foreign exchange exposure closely and will consider hedging significant foreign currency exposure should the need arise.

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

	2012	2011
	HK$'000	*HK$'000*
Assets		
RMB	–	27,192
TWD	–	46,004

Sensitivity analysis

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

6. FINANCIAL INSTRUMENTS (Continued)

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

***Market risk** (Continued)*

(i) Currency risk (Continued)

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

	Profit or loss	
	2012	2011
	HK$'000	*HK$'000*
Impact of		
RMB	–	1,360
TWD	–	2,300

There would be no material impact on to the Group's other component of equity for the years ended 30 June 2012 and 2011.

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

(ii) Interest rate risk

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

Sensitivity analysis

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

- Profit before tax for the year ended 30 June 2012 would be increase/decrease by approximately HK$96,000 (2011: HK$8,400).

- No impact to the other component of equity for the year ended 30 June 2012 and 2011.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

6. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk

As at 30 June 2012, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties provided by the Group is arising from deposits and other receivables.

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

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

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

Liquidity risk

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

6. FINANCIAL INSTRUMENTS (Continued)

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

***Liquidity risk** (Continued)*

	Weighted average effective interest rate	Less than 1 year HK$'000	Between 1 and 5 years HK$'000	Over 5 years HK$'000	Total un-discounted cash flow HK$'000	Total carrying amount HK$'000
The Group						
At 30 June 2012						
Amount due to a former director	**–**	**64**	**–**	**–**	**64**	**64**
Deposits from customers	**–**	**551**	**–**	**–**	**551**	**551**
Accruals and other payables	**–**	**11,451**	**–**	**–**	**11,451**	**11,451**
Obligation under finance leases	**1.26%**	**130**	**491**	**–**	**621**	**554**
Other borrowing	**2.62%**	**19,586**	**–**	**–**	**19,586**	**19,586**
		31,782	**491**	**–**	**32,273**	**32,206**
At 30 June 2011						
Deposits from customers	–	4,446	–	–	4,446	4,446
Accruals and other payables	–	9,763	–	–	9,763	9,763
Other borrowing	–	2,000	–	–	2,000	2,000
Amount due to a former director	–	219	–	–	219	219
Amount due to related companies	–	2,033	–	–	2,033	2,033
Amount due to a related party	–	385	–	–	385	385
		18,846	–	–	18,846	18,846
The Company						
At 30 June 2012						
Amount due to a former director	**–**	**64**	**–**	**–**	**64**	**64**
Accruals and other payables	**–**	**4,703**	**–**	**–**	**4,703**	**4,703**
Obligation under finance leases	**1.36%**	**122**	**460**	**–**	**582**	**514**
Other borrowing	**2.62%**	**19,586**	**–**	**–**	**19,586**	**19,586**
		24,475	**460**	**–**	**24,935**	**24,867**
At 30 June 2011						
Amount due to a former director	–	82	–	–	82	82
Accruals and other payables	–	4,675	–	–	4,675	4,675
Other borrowing	–	2,000	–	–	2,000	2,000
		6,757	–	–	6,757	6,757

6. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value of financial instruments

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

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

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

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

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

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

The carrying value of financial instruments are measured at fair value at 30 June 2012 across the three levels of the fair value hierarchy defined in HKFRS 7 Financial Instruments: Disclosures, with the fair values of each financial instrument categorised in its entirety based on the lowest level of input that fair value measurement.

The levels are defined as follows:

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

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

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

At 30 June 2012, the Group had no financial instruments carried at fair value which are based on the Level 1, Level 2 and Level 3 of the fair value hierarchy. There were no transfers of fair value measurement between Level 1 and Level 2 and no transfers into or out of Level 3 (2011: Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

7. CAPITAL RISK MANAGEMENT

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital to shareholders, issue new shares or raise and repay debts.

The Directors consider the cost of capital and the risks associated with each class of capital to monitors is capital structure on the basis of a gearing ratio. The Group's strategy was changed to maintain the gearing ratio within 100% (2011: not higher than 20%-25%), determined as the proportion of net debt to equity. This ratio expressed by as a percentage of net borrowings over the total equity. Net borrowings are calculated as total borrowings (including current and non-current borrowings as shown in the consolidated statement of financial position) less cash and cash equivalents.

The gearing ratio as at 30 June 2012 and 2011 were as follows:

	2012 ***HK$'000***	2011 *HK$'000*
Borrowing	**19,586**	2,000
Cash and cash equivalents (Note)	**(308)**	(1,436)
Net debt	**19,278**	564
Equity attributable to owners of the Company	**25,473**	109,770
Net debt to total equity ratio	**75.7%**	0.5%

Note:

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

8. TURNOVER

	2012	2011
	HK$'000	*HK$'000*
		(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
	–	4,336

9. 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

9. SEGMENT INFORMATION (Continued)

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 asset				(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)

9. SEGMENT INFORMATION (Continued)

For the year ended 30 June 2011

OPERATING SEGMENT	Continuing operations				Discontinued operations			
	Sales of beauty equipment	Sales of beauty products	Therapy services	Segment total	Royalty fee income	Provision of training courses	Segment total	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'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 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)

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

The accounting policies of the operating segments are the same as the Group's accounting policies as described in note 4.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

9. SEGMENT INFORMATION (Continued)

Segments profit (loss) represents profit earned or loss incurred by each segment without allocation of corporate administration costs including Directors' emoluments, 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.

Segment assets and liabilities

	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
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**
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

9. SEGMENT INFORMATION (Continued)

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% or more to the Group's revenue for the year ended 30 June 2012 (2011: HK$42,691,000).

10. FINANCE COSTS

	2012	2011
	HK$'000	*HK$'000*
Continuing operations		
Interest expenses on other borrowing (Note)	**513**	–
Interest expenses on finance lease	**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. Details of which were set out in note 29.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the twelve (2011: seven) Directors of the Company were as follows:

	2012				2011			
	Fee	Salaries and other emoluments	Retirement benefit scheme contributions	Total	Fee	Salaries and other emoluments	Retirement benefit scheme contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors								
Yu Shu Kuen(1)	–	–	–	–	–	–	–	–
Wang Xiao Fei(2)	166	–	–	166	–	–	–	–
Wang Shang Zhong(3)	121	–	–	121	–	–	–	–
Chan Choi Har Ivy(4)	82	–	–	82	120	1,200	13	1,333
Ji He Qun(5)	170	–	–	170	–	600	–	600
Gu Da Xin(6)	–	–	–	–	–	–	–	–
Cheung Tsun Hin Samson(7)	–	–	–	–	60	180	6	246
Non-executive directors								
Chan Shun Kuen Eric(8)	74	–	–	74	120	–	–	120
Cheung Tsun Hin Samson(7)	74	–	–	74	60	193	7	260
Liu Xin(9)	–	–	–	–	–	–	–	–
Du Juan Hong(10)	39	–	–	39	–	–	–	–
Independent Non-executive directors								
Yeung Mario Bercasio(11)	–	–	–	–	90	–	–	90
Lam Wai Pong(12)	70	–	–	70	120	–	–	120
Chan Sze Hon(13)	63	–	–	63	120	–	–	120
Leung Yiu Cho(14)	24	–	–	24	–	–	–	–
Chu Kin Wang Peleus(15)	39	–	–	39	–	–	–	–
Tam B Ray Billy(16)	39	–	–	39	–	–	–	–
Liu Jiang(17)	–	–	–	–	–	–	–	–
Cheng Hai(18)	–	–	–	–	–	–	–	–
Zhao Jing(19)	–	–	–	–	–	–	–	–
	961	–	–	961	690	2,173	26	2,889

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

Notes:

(1) Mr. Yu Shu Kuen was appointed on 13 February 2012

(2) Mr. Wang Xiao Fei was appointed on 27 July 2011

(3) Mr. Wang Shang Zhong was appointed on 10 August 2011

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

(5) Mr. Ji He Qun resigned on 27 July 2012

(6) Mr. Gu Da Xin resigned on 10 August 2011

(7) Mr. Cheung Tsun Hin Samson resigned on 13 February 2012

(8) Mr. Chan Shun Kuen Eric resigned on 13 February 2012

(9) Ms. Liu Xin was appointed on 14 September 2011 and resigned on 5 March 2012

(10) Mr. Du Juan Hong was appointed on 5 March 2012

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

(12) Mr. Lam Wai Pong resigned on 31 January 2012

(13) Mr. Chan Sze Hon resigned on 10 January 2012

(14) Mr. Leung Yiu Cho was appointed on 12 January 2012 and resigned on 22 March 2012

(15) Mr. Chu Kin Wang Peleus was appointed on 5 March 2012

(16) Mr. Tam B Ray Billy was appointed on 5 March 2012

(17) Ms. Liu Jiang resigned on 10 August 2011

(18) Mr. Cheng Hai was appointed on 10 August 2011 and removed on 8 May 2012

(19) Ms. Zhao Jing was appointed on 14 September 2011 and resigned on 5 March 2012

During the year ended 30 June 2012, three Directors of the Company had waived emoluments of HK$1,020,000. No other Directors had waived or agreed to waive any fees or emoluments during the year ended 30 June 2011. There were no amounts paid or payable to the Directors as an inducement to join or upon joining the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, two (2011: two) Directors whose emoluments were set out in note 11(a). The emoluments of the remaining three (2011: three) individuals for the years ended 30 June 2012 and 30 June 2011 were as follows:

	2012	2011
	HK$'000	*HK$'000*
Salaries and other benefits	**555**	1,993
Retirement benefit scheme contributions	**13**	39
	568	2,032

Their emoluments were within the following bands:

	Number of employees	
	2012	2011
Nil – HK$1,000,000	**3**	2
HK$1,000,001 – HK$1,500,000	**–**	1
	3	3

During the year ended 30 June 2012 and 2011, no emoluments were paid by the Group to the five highest paid individuals, or Directors, as an inducement to join or upon joining the Group or as compensation for loss of office.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

12. 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	2011
	HK$'000	*HK$'000*
		(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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

13. DISCONTINUED OPERATIONS

BSHK is principally engaged in the sale 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 courses. Accordingly, the operations of granting of royalty in relation to sales of beauty products and provision of training courses 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 consolidated statement of comprehensive income, are as follows:

	Note	**2012** ***HK$'000***	2011 *HK$'000*
Turnover	8	**–**	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 courses operations did not contribute any cash flows to the Group's operating activities (2011: cash inflows of approximately HK$5,811,000), investing activities (2011: HK$Nil) and financing activities (2011: HK$Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

14. LOSS FOR THE YEAR

	2012 HK$'000	2011 HK$'000
Loss for the year from continuing operations has been arrived at after (charging) crediting:		
Directors' remuneration (note 11(a))	**(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 asset	**–**	(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 asset	**(7,488)**	–
Bank interest income	**–**	1
Written back of accruals and other payables	**–**	257
Written back on write down of inventories (note 20)	**–**	10
Operating lease payment	**(572)**	(6,990)

15. DIVIDENDS

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

16. 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*
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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

17. INTANGIBLE ASSET

The Group

	Total
	HK$'000
Trademark	
Cost	
At 1 July 2010, 30 June 2011 and 30 June 2012	18,720
Accumulated amortisation and impairment	
At 1 July 2010	10,296
Amortisation for the year	936
At 30 June 2011 and 1 July 2011	11,232
Impairment loss recognised	7,488
At 30 June 2012	18,720
Carrying amounts	
At 30 June 2012	–
At 30 June 2011	7,488

Intangible asset represents the trademark "Blu Spa" used by the Group on its products and therapy services. Such intangible asset is amortised on a straight-line basis over 20 years and its estimated remaining useful life is 8 years at the beginning of the reporting period.

Impairment test of trademark

The Group completed its annual impairment test for the trademark by comparing its recoverable amount to the carrying amount as at 30 June 2012. The recoverable amount of the trademark is determined based on value-in-use calculation of the cash flow projections on the financial estimation. As at 30 June 2012, the Directors are in the opinion that there will be no future cash inflow contributed by the trademark "Blu Spa" to the Group due to the cessation of business operations using the trademark "Blu Spa". As such, the impairment loss of approximately HK$7,488,000 was recognised in the consolidated statement of comprehensive income for the year ended 30 June 2012.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

18. PROPERTY, PLANT AND EQUIPMENT

The Group	Plant and machinery	Leasehold improvement	Furniture, fixture and equipment	Motor vehicle	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost					
At 1 July 2010	667	2,102	876	246	3,891
Additions	43	137	–	–	180
At 30 June 2011 and 1 July 2011	710	2,239	876	246	4,071
De-consolidation of the Unconsolidated Subsidiaries (note 32)	(710)	(2,239)	(876)	(246)	(4,071)
Additions	530	1,263	895	611	3,299
Disposals	–	–	(17)	–	(17)
At 30 June 2012	**530**	**1,263**	**878**	**611**	**3,282**
Accumulated depreciation and impairment					
At 1 July 2010	299	317	513	86	1,215
Charge for the year	130	432	107	49	718
At 30 June 2011 and 1 July 2011	429	749	620	135	1,933
De-consolidation of the Unconsolidated Subsidiaries (note 32)	(429)	(749)	(620)	(135)	(1,933)
Charge for the year	14	42	29	41	126
Written back on disposals	–	–	–	–	–
At 30 June 2012	**14**	**42**	**29**	**41**	**126**
Carrying amounts					
At 30 June 2012	**516**	**1,221**	**849**	**570**	**3,156**
At 30 June 2011	281	1,490	256	111	2,138

Included in the carrying amounts of furniture, fixture and equipment and motor vehicle of approximately HK$40,000 and HK$570,000 respectively are held under finance leases.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

18. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Company	**Leasehold improvement** *HK$'000*	**Furniture, fixture and equipment** *HK$'000*	**Motor vehicle** *HK$'000*	**Total** *HK$'000*
Cost				
At 1 July 2010, 30 June 2011 and 1 July 2011	–	–	–	–
Additions	1,255	33	611	1,899
At 30 June 2012	**1,255**	**33**	**611**	**1,899**
Accumulated depreciation and impairment				
At 1 July 2010, 30 June 2011 and 1 July 2011	–	–	–	–
Charge for the year	42	1	41	84
At 30 June 2012	**42**	**1**	**41**	**84**
Carrying amounts				
At 30 June 2012	**1,213**	**32**	**570**	**1,815**
At 30 June 2011	–	–	–	–

Included in the carrying amount of motor vehicle of approximately HK$570,000 (2011: HK$Nil) is held under finance lease.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

19. INTERESTS IN SUBSIDIARIES

The Company	Unlisted shares, at cost	Impairment loss	Amounts due from subsidiaries	Impairment loss on amounts due from subsidiaries	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2010	483	(480)	240,429	(35,384)	205,048
Advance to subsidiaries	–	–	21,260	–	21,260
Impairment loss recognised	–	–	–	(127,996)	(127,996)
At 1 July 2011	483	(480)	261,689	(163,380)	98,312
Reclassification to amounts due from the Unconsolidated Subsidiaries upon de-consolidation	–	–	(260,791)	163,350	(97,441)
Advance to subsidiaries	–	–	2,713	–	2,713
Impairment loss recognised	–	–	–	(27)	(27)
At 30 June 2012	**483**	**(480)**	**3,611**	**(57)**	**3,557**

In the opinion of the Directors, the amounts due from subsidiaries are unsecured, non-interest bearing and are unlikely to be repaid within one year from the end of the reporting date and are therefore shown in the statement of financial position as non-current.

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

Particulars of the Company's subsidiaries at 30 June 2012 are set out in note 37.

20. INVENTORIES

The Group	**2012**	2011
	HK$'000	*HK$'000*
Raw materials	**33**	494
Finished goods	**1,910**	930
Less: Write down of inventories	**–**	(449)
	1,943	975

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

20. INVENTORIES (Continued)

Movements in write down of inventories:

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

21. TRADE RECEIVABLES

The Group	**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:

The Group	**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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

21. TRADE RECEIVABLES (Continued)

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

The Group	2012 HK$'000	2011 HK$'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:

The Group	2012 HK$'000	2011 HK$'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 lack of complete books and records of the Unconsolidated Subsidiaries, the results, assets and liabilities of 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.

22. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Deposits paid (Note a)	**6,311**	78,953	**2,657**	2,500
Less: Impairment loss recognised	**(2,500)**	(32,500)	**(2,500)**	(2,500)
	3,811	46,453	**157**	–
Prepayments (Note b)	**377**	86,501	**2**	–
Less: Impairment loss recognised	**–**	(14,500)	**–**	–
	377	72,001	**2**	–
Other receivables (Note c)	**5,374**	5,696	**5,000**	5,000
Less: Impairment loss recognised	**(5,000)**	(5,135)	**(5,000)**	(5,000)
	374	561	**–**	–
Amounts due from Unconsolidated Subsidiaries (Note d)	**288,303**	–	**285,268**	–
Less: Impairment loss recognised	**(240,593)**	–	**(237,641)**	–
	47,710	–	**47,627**	–
	52,272	119,015	**47,786**	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

22. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Notes:

(a) During the year ended 30 June 2012, due to 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 a deposit of approximately HK$76,210,000 and corresponding impairment loss of approximately HK$30,000,000 were not included in the consolidated financial statements. As at 30 June 2012, details of the deposits and an impairment loss of approximately HK$32,500,000 in respect of deposit paid recognised in the consolidated statement of comprehensive income for the year ended 30 June 2011 were as follows:

(i) On 9 December 2009, Castletop Assets Limited ("Castletop"), one of the Unconsolidated Subsidiaries, entered into a Letter of Intent (the "LOI") with 中成衛星技術中心有限公司 (the "Joint Venturer") in relation to the formation of a joint venture, namely 北京中成金豐醫療科技有限公司（"中成金豐"）. 中成金豐 is principally engaging in the business of research, development and operation of an electronic media card system using the radio frequency identification technology in the PRC (the "e-Medical Card Project"). The sole shareholder of 深圳市美麗概念貿易有限公司 (the "Distributor") is the sole shareholder of the Joint Venturer.

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

22. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

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

On 31 December 2010, all parties have mutually agreed that the exclusivity clause of the HOA for entering into sales and purchase agreement will not be further extended and it has expired on 31 December 2010. The JV Deposits was not refunded by the Joint Venturer. The Directors are of the opinion that the JV Deposits would not be recoverable and an impairment loss of the entire amount of JV Deposits was recognised in consolidated statement of comprehensive income for the year ended 30 June 2011.

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

(iii) As at 30 June 2011, included in deposits was a deposit for license fee of HK$4,000,000 (the "License Fee Deposit") and remain outstanding up to the date of the consolidated financial statements for the year ended 30 June 2011. The Directors are of the opinion that the License Fee Deposit would not be recoverable and an impairment loss of the entire amount of the License Fee Deposit was recognised in the consolidated statement of comprehensive income for the year ended 30 June 2011.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

22. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(a) Impaired deposits paid

The movements in the impairment losses of deposits paid recognised during the year are set out below:

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Balance at the beginning of the year	**32,500**	–	**2,500**	–
De-consolidation of the Unconsolidated Subsidiaries	**(30,000)**	–	**–**	–
Impairment loss recognised	**–**	32,500	**–**	2,500
Balance at the end of the year	**2,500**	32,500	**2,500**	2,500

(b) During the year ended 30 June 2012, due to 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 prepayments of the Unconsolidated Subsidiaries of approximately HK$86,501,000 and corresponding impairment loss of approximately HK$14,500,000 were not included in the consolidated financial statements. Details of prepayments as at 30 June 2011 and impairment loss of approximately HK$14,500,000 in respect of prepayments recognised in the consolidated statement of comprehensive income for the year ended 30 June 2011 were as followings:

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

(ii) As at 30 June 2011, included in the prepayments was an amount of approximately HK$1,400,000 paid to the Distributor for the selling and distribution costs (the "Distributor Prepayments"). The Directors are of the opinion that the Distributor Prepayments would not be recoverable and an impairment loss of the entire amount on the Distributor Prepayments was recognised in the consolidated statement of comprehensive income for the year ended 30 June 2011.

22. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(b) (iii) As at 30 June 2011, included in prepayments was a legal fee prepayment of HK$1,050,000 paid to a law firm in Hong Kong (the "Legal Fee Prepayment") in relation to legal fees incurred on behalf of two entities. The Directors are of the opinion that the Legal Fee prepayment would not recoverable and an impairment loss of the entire amount on the Legal Free Prepayment was recognised in the consolidated statement of comprehensive income for the year ended 30 June 2011.

Impaired prepayments

The movements in the impairment of prepayments during the year are set out below:

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Balance at the beginning of the year	**14,500**	–	**–**	–
De-consolidation of the Unconsolidated Subsidiaries	**(14,500)**	–	**–**	–
Impairment loss recognised	**–**	14,500	**–**	–
Balance at the end of the year	**–**	14,500	**–**	–

(c) During the year ended 30 June 2012, due to 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 other receivables of the Unconsolidated Subsidiaries of approximately HK$135,000 and corresponding impairment loss of approximately HK$135,000 were not included in the consolidated financial statements. Details of the other receivables as at 30 June 2011 and impairment loss of HK$5,135,000 in respect of other receivables recoginsed in the consolidated statement of comprehensive income for the year ended 30 June 2011 were as followings:

(i) For the year ended 30 June 2011, included in other receivables was loan receivable due from an entity amounting to HK$5,000,000 which was unsecured, repayment within two years and carried interest at 5% per annum (the "Loan"). The Directors are of the opinion that the Loan would not be recoverable and an impairment loss for the entire amount of the Loan was recognised in the consolidated statement of comprehensive income for the year ended 30 June 2011.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

22. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(c) Impaired other receivables

The movements in the impairment loss of other receivables during the year are set out below:

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Balance at the beginning of the year	**5,135**	–	**5,000**	–
De-consolidation of the Unconsolidated Subsidiaries	**(135)**	–	**–**	–
Impairment loss recognised	**–**	5,135	**–**	5,000
Balance at the end of the year	**5,000**	5,135	**5,000**	5,000

(d) Included in "Deposits, prepayments and other receivables" of the Group was the amounts due from the Unconsolidated Subsidiaries amounted to approximately HK$288,303,000 and impairment losses of approximately HK$240,593,000 was recognised in the consolidated statement of comprehensive income. As set out in note 2, the Unconsolidated Subsidiaries was de-consolidated with effect from 1 July 2011. Accordingly, the amounts due from the Unconsolidated Subsidiaries were reclassified from intercompany balances to the amounts due from the Unconsolidated Subsidiaries in the consolidated financial statements. The amounts due from the Unconsolidated Subsidiaries are non-interest bearing, unsecured and repayable on demand.

Included in "Deposits, prepayments and other receivables" of the Company was the amounts due from the Unconsolidated Subsidiaries amounted to approximately HK$285,268,000 and accumulated impairment losses of approximately HK$237,641,000 of which approximately HK$74,291,000 was recognised in the statement of comprehensive income during the year. As set out in note 2, the Unconsolidated Subsidiaries were de-consolidated with effect from 1 July 2011. Accordingly, the amount due from the Unconsolidated Subsidiaries was reclassified from interests in subsidiaries to the amounts due from the Unconsolidated Subsidiaries in the financial statements. The amounts due from the Unconsolidated Subsidiaries are non-interest bearing, unsecured and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

22. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

(d) Impaired amounts due from the Unconsolidated Subsidiaries

The movements in the impairment of amounts due from the Unconsolidated Subsidiaries during the year are set out below:

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Balance at the beginning of the year	**–**	–	**–**	–
Reclassification upon de-consolidation of the Unconsolidated Subsidiaries	**–**	–	**163,350**	–
Impairment loss recognised	**240,593**	–	**74,291**	–
Balance at the end of the year	**240,593**	–	**237,641**	–

23. BANK BALANCES AND CASH

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash at bank and on hand	**308**	1,436	**162**	1,401

At the end of the reporting period, the cash and bank balances of the Group denominated in CAD amounted to HK$Nil (2011: approximately HK$9,000).

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

24. AMOUNT DUE TO A FORMER DIRECTOR

The Group and the Company

At 30 June 2012, the amount due to Ms. Chan Choi Har Ivy, the former Director, amounted to approximately HK$64,000 (2011: approximately HK$219,000) and approximately HK$64,000 (2011: approximately HK$82,000) to the Group and the Company respectively.

The amount due to Ms. Chan Choi Har Ivy is non-interest bearing, unsecured and repayable on demand.

Ms. Chan Choi Har Ivy resigned as an executive Director on 7 March 2012.

25. AMOUNTS DUE TO RELATED COMPANIES/A RELATED PARTY

The Group

At 30 June 2012, the amounts due to related companies represented entities whose controlling shareholders are Ms. Keung Wai Fun Samantha, the former chief executive officer and Mr. Cheung Tsun Hin Samson, the former Director, amounted to HK$Nil (2011: approximately HK$2,033,000), are unsecured, non-interest bearing and repayable upon demand.

At 30 June 2012, the amount due to a related party represented an amount due to Ms. Keung Wai Fun Samantha, the former chief executive officer of the Company, amounted to HK$Nil (2011: approximately HK$385,000), is unsecured, non-interest bearing and repayable on demand.

Ms. Keung Wai Fun Samantha and Mr. Cheung Tsun Hin Samson resigned as chief executive officer and Director on 7 March 2012 and 13 February 2012 respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

26. DEPOSITS FROM CUSTOMERS

The Group

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

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

27. ACCRUALS AND OTHER PAYABLES

	The Group		The Company	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
Accruals	**2,849**	5,786	**2,816**	3,198
Other payables	**2,356**	3,977	**1,887**	1,477
Amounts due to the Unconsolidated Subsidiaries (Note)	**6,246**	–	**–**	–
	11,451	9,763	**4,703**	4,675

Note:

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

28. OBLIGATION UNDER FINANCE LEASES

The Group

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: Amounts due for settlement within 12 months (shown under current liabilities)			**(105)**	–
Amounts due for settlement after 12 months			**449**	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

28. OBLIGATION UNDER FINANCE LEASES (Continued)

The Company

During the year, the Company has leased a motor vehicle under finance lease. The lease term is 5 years with a fixed interest rate of 2.75% per annum.

	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	**122**	–	**97**	–
More than one year and not more than five years	**459**	–	**417**	–
	581	–	**514**	–
Less: future finance charges	**(67)**	–	**–**	–
	514	–	**514**	–
Less: Amounts due for settlement within 12 months (shown under current liabilities)			**(97)**	–
Amounts due for settlement after 12 months			**417**	–

The Group's and the Company's obligation under finance lease are secured by the lessor's charge over the leased asset.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

29. OTHER BORROWING

The Group and the Company

	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 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 agreement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

30. SHARE CAPITAL

The Group and the Company

	Number of shares	Amount
		HK$'000
Authorised:		
At 1 July 2010, 30 June 2011 and 30 June 2012	5,000,000,000	500,000
Issued and fully paid:		
At 1 July 2010	522,200,000	52,220
Issue of shares on conversion of convertible bonds (Note a)	600,000,000	60,000
Issue of new shares pursuant to a placing agreements dated 29 November 2010 (Note b)	80,000,000	8,000
At 30 June 2011 and 1 July 2011	1,202,200,000	120,220
Issue of new shares pursuant to a placing agreement dated 27 July 2011 (Note c)	110,000,000	11,000
At 30 June 2012	1,312,200,000	131,220

Notes:

(a) During the year ended 30 June 2011, the convertible bonds were fully converted into 600,000,000 ordinary shares with principal amounts of HK$114,000,000 at a conversion price of HK$0.19 per conversion share.

(b) On 15 December 2010, the Company issued 80,000,000 new shares at HK$0.375 each by placing.

(c) On 5 August 2011, the Company issued 110,000,000 new shares at HK$0.15 each by placing.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

31. RESERVES

The Company

	Share premium	Convertible bonds equity reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2010	90,135	40,566	(50,572)	80,129
Shares issued pursuant to the placing agreement dated 29 November 2010	22,000	–	–	22,000
Transaction costs attributable to issue of new shares	(1,163)	–	–	(1,163)
Issue of shares on conversion of convertible bonds	59,297	(40,566)	–	18,731
Loss for the year	–	–	(146,961)	(146,961)
At 30 June 2011 and 1 July 2011	170,269	–	(197,533)	(27,264)
Shares issued pursuant to the placing agreement dated 27 July 2011	5,500	–	–	5,500
Transaction costs attributable to issue of new shares	(412)	–	–	(412)
Loss for the year	–	–	(80,591)	(80,591)
At 30 June 2012	**175,357**	**–**	**(278,124)**	**(102,767)**

32. 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 Company and its subsidiaries. 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

32. DE-CONSOLIDATION OF SUBSIDIARIES (Continued)

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)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

32. DE-CONSOLIDATION OF SUBSIDIARIES (Continued)

(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	–

32. DE-CONSOLIDATION OF SUBSIDIARIES (Continued)

(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. 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)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

32. DE-CONSOLIDATION OF SUBSIDIARIES (Continued)

(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	–

33. RETIREMENT BENEFIT SCHEME

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

34. OPERATING LEASE COMMITMENTS

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

The Group	**2012** **HK$'000**	2011 HK$'000
Within One year	**3,816**	4,444
In the second to fifth year inclusive	**3,594**	3,664
Over five years	**–**	–
	7,410	8,108

Operating lease payments represent rentals payable by the Group for certain of its office and retail shops premises. Leases are negotiated for an average terms of 2 to 5 years.

Rentals are fixed over the guarantee rental or a sales level based on the higher of a minimum guarantee rental or a sales level based rental. The minimum guaranteed rental has been used to compute the above commitments.

35. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed in amounts due from the Unconsolidated Subsidiaries (note 22), amount due to a former director (note 24), amounts due to related companies/a related party (note 25), amounts due to the Unconsolidated Subsidiaries (note 27) and 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** **HK$'000**	2011 HK$'000
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**	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

35. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

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 29 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 during 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, the former executive Director 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:

The Group

	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 is determined or proposed by the remuneration committee having regard to the performance of individuals and market trends.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

36. EVENTS AFTER REPORTING PERIOD

(a) As set out in the Company's announcement dated 18 July 2012, EDS Distribution Limited ("EDS Distribution"), 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 report, 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 was 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 agreement were set out in the Company's announcements dated 26 September 2012, 26 October 2012 and 26 November 2012.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

37. SUBSIDIARIES

Particulars of the Company's subsidiaries at 30 June 2012 are as follows:

Name of subsidiaries	Place of incorporation/ operation	Issued and paid up share capital	Proportion of nominal value of issued capital held by the Company Directly %	Indirectly %	Principal activities
Beachgold Assets Limited	British Virgin Islands/Hong Kong	US$2	–	100	Holding of patent and trademarks/tradenames
Blu Spa Group Limited	British Virgin Islands/Hong Kong	US$2,700	100	–	Investment holding
Kingsbury Asia Limited	British Virgin Islands/Hong Kong	US$2	–	100	Administration and operation
EDS International Holdings Limited (formerly known as Blu Spa Asia Limited)	British Virgin Island	US$1	100	–	Investment holding
EDS (China) Limited (formerly known as Blu Spa (Shenzhen) Limited)	Hong Kong	HK$1	–	100	Investment holding
EDS (Asia) Limited (formerly known as Blu Spa (Asia) Limited)	Hong Kong	HK$1	–	100	Marketing development, product distribution and customer support services

38. AUTHORISATION FOR ISSUE OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board on 6 December 2012.

FINANCIAL SUMMARY

	FOR THE YEAR ENDED 30 JUNE				
	2008	2009	2010	2011	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Results					
Turnover	16,174	49,294	99,662	53,400	**702**
Profit(loss) from ordinary activities attributable to shareholders	1,282	11,414	27,113	(185,680)	**(100,389)**

Assets and liabilities

	AS AT 30 JUNE				
	2008	2009	2010	2011	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Total assets	69,897	88,972	278,156	134,210	**57,679**
Total liabilities	(14,311)	(6,845)	(90,291)	(24,440)	**(32,206)**
Balance of shareholders' funds	55,586	82,127	187,865	109,770	**25,473**