EDS Wellness Holdings Limited

(Formerly known as 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 2013

* *For identification purpose only*

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This report, for which the directors (the "Directors") of EDS Wellness Holdings Limited (formerly known as 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.eds-wellness.com.

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COMPANY INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. Yu Zhen Hua Johnny
(former name: 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 Zhen Hua Johnny

AUDITORS

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

AUTHORISED REPRESENTATIVES

Mr. Yu Zhen Hua Johnny
Mr. Mr. Lee Chan Wah

REMUNERATION COMMITTEE

Mr. Chu Kin Wang Peleus *(Chairman)*
Mr. Yu Zhen Hua Johnny
Mr. Tse Joseph

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

Mr. Chu Kin Wang Peleus *(Chairman)*
Mr. Yu Zhen Hua Johnny
Mr. Tam B Ray Billy

PRINCIPAL BANKERS

China CITIC Bank International Limited
Chong Hing Bank Limited

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

19/F., Prosperity Tower
No. 39 Queen's Road Central
Central
Hong Kong

LEGAL ADVISORS

As to Hong Kong Law
Michael Li & Co

As to the Cayman Islands Law
Conyers Dill and Pearman

WEBSITE

www.eds-wellness.com

STOCK CODE

8176

CHAIRMAN'S STATEMENT

Dear Shareholders,

During the year, the management of the Group strived to resume trading in the shares of the Company on the Stock Exchange. The Group has spent enormous resources in this aspect including (a) to address the conditions as set out in the letter issued by the Stock Exchange on 13 July 2012, including (i) the engagement of independent professional to conduct forensic investigation to address all the issues raised in the former auditors' resignation letter and the audit qualifications made by the current auditors in its independent auditors' report for the year ended 30 June 2011; (ii) the preparation of all outstanding financial results and reports; and (iii) the engagement of independent professional to review of the Group's internal control system and provide recommendations thereon. (b) to engage professional to handle the submission of resumption proposal with the Stock Exchange; and (c) to engage the Company's auditors to perform a full audit and issue an audited report for the six months ended 31 December 2012. Details of professional fees incurred for the preparation of the resumption of trading in shares of the Company are set out in the section of Management and Discussion Analysis.

On the other hand, the Group has continuously strengthened its management team which has been committed to rationalizing and reengineering its business strategy and processes to reduce costs and increase efficiency. The recent satisfactory performance of the Group's new business in the distribution of "Evidens de Beauté" products enhances the confidence of the management to further expand such business to generate further income for the Group.

The management tried its utmost effort to secure sufficient working capital and improve the financial condition of the Company. In addition to the entering into short term loan agreements and realization of the Group's assets, the Company had entered into the conditional subscription agreement and the conditional loan agreement with independent third parties on 21 March 2013 to raise net proceeds of approximately HK$79 million for future business development and general working capital purpose.

Yu Zhen Hua Johnny
Chairman

Hong Kong, 6 September 2013

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

In view of the insufficient of general working capital, the Company had entered into two short-term loan agreements in normal commercial terms with Koffman Investment Limited ("KIL"), of which Mr. Yu Zhen Hua Johnny (former name: Yu Shu Kuen), the Chairman, executive Director and Managing Director, is the ultimate beneficial owner, in the principal of HK$10 million and HK$20 million on 8 February 2012 (the "First Loan Agreement") and 27 March 2012 (the "Second Loan Agreement") respectively. All the outstanding borrowings and interest expenses accrued for the First Loan Agreement had been repaid on 7 May 2012. The loan facility of the Second Loan Agreement was increased to a principal amount of HK$50 million in accordance with the supplementary loan agreement dated 26 June 2012. The repayment date of all the outstanding borrowings for the Second Loan Agreement had been extended from 27 June 2012 to 31 December 2013, by entering of fifteen supplementary loan agreements dated 26 June 2012, 26 September 2012, 26 October 2012, 26 November 2012, 7 December 2012, 31 December 2012, 15 January 2013, 31 January 2013, 28 February 2013, 2 April 2013, 30 April 2013, 31 May 2013, 28 June 2013, 31 July 2013 and 30 August 2013 respectively.

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

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

(a) engage an independent professional adviser acceptable to the Stock Exchange to conduct a forensic investigation to address all the issues raised in the former auditors' resignation letter and the audit qualifications made by the current auditors in its independent auditors' report for the year ended 30 June 2011;

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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 even date. On 10 October 2012, a copy of the Forensic Investigation Report was submitted to the Board by the Special Investigation Committee formed on 7 March 2012. A summary of the major findings of the Forensic Investigation Report was set out in an announcement dated 9 April 2013. As the findings indicate that a considerable number of past transactions of the Group may be fictitious, the Company has reported the matter to the Commercial Crime Bureau of the Hong Kong Police Force. Having considered the findings of the Forensic Investigation Report and complete documentary information and reasonable explanation in respect of the transactions asserted to have been undertaken by certain subsidiaries could not be obtained, the Directors have not been able to satisfy themselves regarding the accounting treatments in respect of those transactions for the year ended 30 June 2012. As such, the results, assets and liabilities of these subsidiaries (the "Unconsolidated Subsidiaries") have not been included in the consolidated financial statements for the year ended 30 June 2012 (the "De-consolidation"). Similarly, the Unconsolidated Subsidiaries have not been included in the audited consolidated financial statements for the year ended 30 June 2013.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

The Directors proposed to create a contributed surplus account of the Company and the share premium account of the Company will be cancelled. The credits arising from the cancellation of the share premium account will be transferred to the newly created contributed surplus account of the Company within the meaning of the Companies Act 1981 of the Bermuda effective upon the change of domicile. Details of such proposal were disclosed in the Circular. The proposal was approved at the EGM. As at the date of this report, the creation of contributed surplus account and cancellation of share premium account has not yet been completed.

(ii) Change of domicile

The Directors proposed to change the domicile of the Company from the Cayman Islands to Bermuda by way of de-registration in the Cayman Islands and continuation as an exempted company under the laws of Bermuda and to adopt a new memorandum of continuance and bye-laws in compliance with Bermuda laws to replace the existing memorandum and articles of association of the Company (the "Change of Domicile"). Details of the Change of Domicile and adoption of new memorandum and of continuance and bye-laws were set out in the Circular. Such proposal was approved at the EGM. As at the date of this report, the Change of Domicile has not yet been completed.

(iii) Capital reorganisation

After the Change of Domicile, the Directors proposed to reorganise the capital of the Company, which involves the capital reduction and the capital consolidation (the "Capital Reorganisation"). Details of the Capital Reorganisation were set out in the Circular. The Capital Reorganisation was approved at the EGM. As at the date of this report, the Capital Reorganisation has not yet been completed.

(iv) Change of company name

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

On 24 April 2013, the Company announced that the Certificate of Incorporation on Change of Name was issued by the Registrar of Companies in the Cayman Islands on 8 March 2013, certifying the change of the English name of the Company from "China AU Group Holdings Limited" to "EDS Wellness Holdings Limited". The Chinese name of the Company being "中國金豐集團控股有限公司" (which was adopted for identification purpose) will no longer be adopted. Furthermore, the Certificate of Registration of Change of Corporate Name of Non-Hong Kong Company was

MANAGEMENT DISCUSSION AND ANALYSIS

issued by the Registrar of Companies in Hong Kong on 18 April 2013 certifying the new name of the Company has been registered in Hong Kong under Part XI of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). Following the change of Company name becoming effective, with effect from 29 April 2013, the shares of the Company will be traded on the Stock Exchange under the new stock short name "EDS WELLNESS" in English and the Chinese stock short name of "中國金豐集團" will no longer be adopted.

As disclosed in the Company's announcement dated 19 February 2013, the sole director of Blu Spa (Hong Kong) Limited ("BSHK") decided to voluntarily wind-up BSHK. The Directors are of the view that the winding-up of BSHK will not have any material adverse financial effect on the Group. The resolution for the voluntary winding-up of BSHK was subsequently passed by its sole shareholder on 26 February 2013. In addition, Mr. Osman Mohammed Arab and Mr. Wong Kwok Keung of RSM Nelson Wheeler Corporate Advisory Limited were appointed as joint and several liquidators for the purpose of the winding-up of BSHK in the creditors' meeting held on 26 February 2013. As at the date of this report, the voluntary winding-up of BSHK is in progress.

As disclosed in the Company's circular dated 23 May 2013 (the "Circular"), the Board proposed to put forward to the shareholders of the Company the following transactions for approval at the forthcoming extraordinary general meeting to be held on 11 June 2013 (the "EGM"):

(i) Issue of convertible bonds

The Company and New Cove Limited (the "Subscriber"), an indirect wholly-owned subsidiary of Eternity Investment Limited (the "Subscriber Holding") of which its issue shares are listed on the Main Board of the Stock Exchange (stock code: 764), entered into a subscription agreement (the "Subscription Agreement") in respect of the issue of convertible bonds in the principle amount of HK$40 million. Details of such transactions were disclosed in the Circular. The transactions were approved at the EGM. As at the date of this report, the transactions of the issue of the convertible bonds and the conversion shares to be allotted and issued upon exercise of the conversion rights attaching to the convertible bonds have not yet been completed.

(ii) Application for Whitewash Waiver by the subscriber

Assuming the Capital Reorganisation takes effect, the Subscriber will be interested in approximately 75.30% of the issued share capital of the Company as enlarged by the allotment and issue of all the conversion shares, immediately upon the full exercise of the conversion rights attaching to the convertible bonds. Under Rule 26.1 of the Takeovers Code, the Subscriber and the parties acting in concert with it are required to make a mandatory general offer to the shareholders for all the issued shares unless the Whitewash Waiver is obtained. In this regards, the Subscriber will make an application to the Executive of the Securities and Futures Commission ("SFC") for the Whitewash Waiver in respect of the subscription and the exercise of the conversion rights attaching to the convertible bonds. The Whitewash Waiver was approved at the EGM and granted by the Executive of the SFC.

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(iii) Loan agreement

The Company and Hong Kong Builders Finance Limited (the "Lender"), an indirect wholly-owned subsidiary of the Subscriber Holding, entered into a loan agreement (the "Loan Agreement"), pursuant to which, the Lender has conditionally agreed to grant an unsecured loan in the principal amount of HK$40 million to the Company for a term of 3 years from the date of drawdown. The Loan Agreement will be conditional upon the completion of the Subscription Agreement. Details of such transaction was disclosed in the Circular. The transaction was approved at the EGM. As at the date of this report, the transaction of the grant of an unsecured loan in the principal amount of HK$40 million to the Company by the Lender for a term of 3 years has not yet been completed.

On 27 March 2013, the Company submitted a resumption proposal (the "Resumption Proposal") to the Stock Exchange with a view to seek the Stock Exchange's approval for the resumption of trading in the shares of the Company, taking into consideration of a number of actions taken by the Company, which include, among others (i) engagement of RSM to conduct forensic investigation as mentioned above; (ii) publication of the findings of the Forensic Investigation Report; (iii) the Special Investigation Committee was of the view that no current Directors (including Mr. Wang Xiaofei and Mr. Wang Shangzhong) were involved in the fictitious transactions and irregularities as set out in the Forensic Investigation Report; (iv) voluntary winding-up of BSHK due to its incomplete books and records; (v) the timeline to publish all outstanding financial results and reports of the Company; (vi) engagement of independent financial advisor to conduct internal control review; (vii) the fund raising plan in relation to the entering into the Subscription Agreement and the Loan Agreement; (viii) the Directors' opinion on the working capital sufficiency of the Group; and (ix) the Directors' opinion on the sufficient level of operations of the Group under Rule 17.26 of the GEM Listing Rules.

On 9 April 2013, the Company received a letter from the Stock Exchange in which the Stock Exchange stated that in considering the Company's resumption, the Stock Exchange had reviewed information recently disclosed or provided by the Company on the Company's latest operation and financial position. The information gave rise to its concerns whether the Company is able to satisfy its continued listing obligations under Rule 17.26 of the GEM Listing Rules to maintain a sufficient level of operations or assets, in particular, (i) the small scale and limited track record of the Company's existing "Evidens de Beauté" distribution business and the "Le Spa Evidens" spa in Causeway Bay; and (ii) the minimal amount of turnover for the year ended 30 June 2012 and the gross loss and net loss position as shown in the financial information for the year ended 30 June 2012 and for the six months ended 31 December 2012.

The Stock Exchange expressed in the letter that there are concerned whether the Company's current business is viable and has a scale or substance which is able to justify its continued listing and it invited the Company to provide a submission on or before 8 May 2013 to demonstrate that the Company's business is viable and sustainable. On 3 May 2013, the Company has made a submission to the Stock Exchange requesting for a three months extension. On 14 May 2013, the Company received a letter from the Stock Exchange in which the Stock Exchange requested the Company to provide a submission by 8 August 2013 to demonstrate that the Company has a viable and sustainable business. The Stock

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Exchange expressed in such letter that this would be the final deadline for providing the submission, failing which the Stock Exchange would proceed to cancel the Company's listing under the delisting procedures of GEM Listing Rule 9.15.

On 8 August 2013, the Company made a submission to the Stock Exchange to demonstrate that the Company is able to satisfy its continued listing obligations under GEM Listing Rule 17.26 to maintain a sufficient level of operations, together with a profit and working capital forecast prepared by the management of the Company. On 12 August 2013, the Stock Exchange issued a letter to the Company in which the Stock Exchange requested the Company to provide further information for the submission dated 8 August 2013 and the Company replied with the queries of the Stock Exchange on 16 August 2013. On 23 August 2013 and 29 August 2013, the Company made another three submissions to provide the Stock Exchange with an update on the progress of the Group's business development as stated in the submission dated 8 August 2013.

During the year, the management continued to streamline its operations and concentrated its resources to develop its new business. Up to the date of this report, the Group terminated the operations of 3 spa centres located at Central, Cheung Sha Wan and Sheung Wan and a hair rejuvenating centre located at Central that brings to a total of 9 retail shops or spa centres since February 2012. Since July 2012 after the Group has been granted the exclusive distribution right for the "Evidens de Beauté" products in Hong Kong, the Group has spent tremendous effort and resources to promote the awareness and build the image of the brand, including (i) the open of "Le Spa Evidens" on 5 October 2012; (ii) the 2 days in house event on 19 March 2013 and 20 March 2013 inviting 40 guests to come along to introduce the brand "Evidens de Beauté" as well as the type of services and treatments provided at the spa; (iii) the establishment of a subsidiary in Xi'an, China in March 2013 for conducting the preparatory work for the distribution of "Evidens de Beauté" products in China; (iv) the renovation of the store at World Trade Centre at Causeway Bay to transform it into a "Evidens de Beauté" point of sale in May 2013; (v) the title skincare sponsor for the 25th anniversary celebration event for Occasions PR & Marketing Limited held on 15 May 2013 at Four Seasons Hotel; (vi) the one day press and publicity event held at The Peninsula Hotel on 25 June 2013 inviting 40 beauty editors and 30 celebrities to publicise the brand "Evidens de Beauté"; (vii) the subscription for a year plan advertising with Tatler Hong Kong edition and Prestige Hong Kong edition, both of which are top luxury monthly magazines in Hong Kong; and (viii) the extension of distribution channel by the supply of "Evidens de Beauté" products to one of the biggest worldwide on line retail shops selling well known skin care & cosmetics brand.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Due to De-consolidation, the financial statements of the Unconsolidated Subsidiaries have not been included in the audited consolidated financial statements of the Group for the year ended 30 June 2013.

During the year, the Group recorded a turnover of approximately HK$8.1 million of which approximately HK$4.5 million, approximately HK$2.5 million and approximately HK$1.1 million were generated from the sales of beauty products, provision of therapy services and sales of beauty equipment respectively. The gross loss of approximately HK$3.5 million was mainly attributed to the direct costs of salaries and rental expenses incurred in the preliminary development stage of the new business and the extra sales discounts offered for the sales of beauty products under the brand name "Blu Spa". The operations of the Group improved in the fourth quarter that as contributed by the gross profit recorded in the fourth quarter, the gross loss recorded for the year ended 30 June 2013 was less than the aggregate gross loss recorded in the previous three quarters.

Other income of approximately HK$9.1 million was mainly contributed by the gain on defaulted payment of the refundable deposit of approximately HK$4.5 million and other interest income on overdue receivable in relation to the refundable deposit of approximately HK$4.6 million.

The selling and distribution costs of approximately HK$2.3 million was mainly attributed to the subscription fee for advertising with magazines and expenses for several once-off marketing and promotion events held during the year, e.g. the grand opening ceremony of the "Le Spa Evidens" and the title skincare sponsor for the 25th anniversary celebration event for Occasions PR & Marketing Limited.

The administrative expenses of approximately HK$21.8 million mainly comprised of (i) salaries and directors' remuneration of approximately HK$7.1 million; (ii) legal and professional fees of approximately HK$5.4 million; (iii) depreciation of approximately HK$1.4 million; (iv) audit fee of approximately HK$1.0 million; (v) rent and rates of approximately HK$1.2 million; (vi) written off on fixed assets of approximately HK$1.1 million; (vii) entertainment of approximately HK$1.1 million; and (viii) overseas travelling expenses of approximately HK$0.6 million.

The finance costs of approximately HK$3.7 million was mainly attributed to the loan interest expenses paid to KIL during the year.

The consolidated loss attributable to owners of the Company amounted to approximately HK$23.6 million for the year ended 30 June 2013 (2012: approximately HK$100.4 million). The improvement of the results was mainly contributed by the non-recurrence of once-off impairment loss recognised in respect of deposits, prepayments and other receivables recorded in the corresponding period in last year.

MANAGEMENT DISCUSSION AND ANALYSIS

During the year, non-operating professional fees incurred for the preparation of the resumption of trading in shares of the Company comprised of: (i) the professional fees for forensic investigation of approximately HK$1.2 million; (ii) the professional fees for internal control review of approximately HK$0.4 million; (iii) the professional fees for the issue of audited consolidated financial statements for the six months ended 31 December 2012 of approximately HK$0.5 million; and (iv) the professional fees for handling the submission of resumption proposal to the Stock Exchange of approximately HK$1.1 million.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2013, the Group had total assets of approximately HK$ 53.8 million (2012: approximately HK$ 57.7 million), including cash and bank balances of approximately HK$ 1.8 million (2012: approximately HK$ 0.3 million).

During the year, the Group financed its operation with internally generated cash flows and borrowing from KIL.

CAPITAL STRUCTURE

As at 30 June 2013, the total borrowings of the Group amounted to approximately HK$42.4 million (2012: approximately HK$19.6 million), representing the borrowing from KIL of which is 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 78.8% (30 June 2012: 34.0%). The deterioration in gearing ratio was mainly attributed to the increase in borrowing during the year.

CHARGE ON THE GROUP'S ASSETS

As at 30 June 2013, the Group had charged bank deposits of approximately HK$0.5 million (2012: HK$Nil) in favour a bank for certain commercial services granted to a subsidiary of the Company.

FOREIGN EXCHANGE RISK

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

MANAGEMENT DISCUSSION AND ANALYSIS

COMMITMENTS

As at 30 June 2013, the Group had operating lease commitments of approximately HK$4.1 million (2012: approximately HK$7.4 million).

CONTINGENT LIABILITIES

As at 30 June 2013, the Group had no contingent liabilities (2012: Nil).

EMPLOYEES

As at 30 June 2013, the Group had 30 employees. Their remuneration, promotion and salary review are assessed based on job responsibilities, work performance, professional experiences and the prevailing industry practices. The employees in Hong Kong joined the mandatory provident fund scheme.

SIGNIFICANT INVESTMENT

The Group did not enter into any new significant investment during the year ended 30 June 2013.

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 2013.

FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save for the acquisition as disclosed in the paragraph headed "Acquisition of new business" below, the Group does not have any concrete plan for material investments or capital assets for the coming year.

FUTURE PLANS

The Group is exploring new business opportunities and furthering its business development including:

Launch of new products line

A new extreme line of the "Evidens de Beauté" products will be launched to the market in November 2013. It is expected that sales will be stimulated by the introduction of the new products line.

Distribution of "Evidens de Beauté" products in the PRC

A subsidiary of the Company was established in Xi'an, China in March 2013. The Group has appointed an agent for registration of a selected range of the "Evidens de Beauté" products in PRC. The registration is in progress and pending the provision of further information from the brand owner of "Evidens de

MANAGEMENT DISCUSSION AND ANALYSIS

Beauté". The Group is negotiating with the brand owner of "Evidens de Beauté" for extending the distribution right to PRC. The Group plans to commence distribution of the "Evidens de Beauté" products in PRC after the products are registered. The Group will gradually promote the brand name of "Evidens de Beauté" in PRC in the meantime. The Group has sponsored "Guangzhou (International) Fashion Hair Style, Make Up and Image Design Competition" held on 24 August 2013 and 25 August 2013 in Guangzhou.

Extension of distribution channel in Macau

On 30 August 2013, the Company announced that on 8 August 2013, EDS (Asia) Limited ("EDS Asia"), an indirect wholly-owned subsidiary of the Company, entered into a supply agreement (the "Macau Agreement") with a member of a pharmaceutical group (the "Macau Retailer"). EDS Asia is the holding company of EDS Distribution Limited ("EDS Distribution") which is the exclusive distributor in Hong Kong of the "Evidens de Beauté" products. Pursuant to the Macau Agreement, EDS Asia has agreed to appoint the Macau Retailer as its sole and exclusive retail agent in Macau and supply the "Evidens de Beauté" products to the Macau Retailer for retail sales initially in four of its associated pharmaceutical stores in Macau up until 30 June 2015 which shall be renewed thereafter for a further term of 2 years if agreed by the parties to the Macau Agreement. The Macau Agreement is subject to the conditions precedent that (i) a consent to the extension of the exclusive distribution right of EDS Distribution to Macau or the supply of the "Evidens de Beauté" products to the Macau Retailer has been obtained from the brand owner of the "Evidens de Beauté" products; (ii) EDS Asia has provided to the Macau Retailer all the required and necessary documents and agreements entered with the brand owner of the "Evidens de Beauté" products to the satisfaction of the Macau Retailer for verification; and (iii) the Macau Retailer has given a written notice of satisfaction within 7 days after receiving and being satisfied with all the documents and consent referred to in (i) and (ii) above confirming that all the conditions precedent are fulfilled and satisfied.

Exclusive distribution right of "Evidens de Beauté" products in Macau

On 30 August 2013, the Company announced that on 29 August 2013, EDS Distribution has been granted by Montaigne the exclusive distributorship of the "Evidens de Beauté" products in Macau up until 30 June 2015 which shall be renewed automatically thereafter for period of 1 year each unless terminated by either party.

New shop at The Pulse, Repulse Bay

The Group is negotiating with the landlord of The Pulse at Repulse Bay for a lease of a shop with the floor area of approximately 800 sq. ft. The negotiation is in the final stage and the Group has received a draft offer letter from the landlord in respect of a shop located on the upper ground floor of The Pulse. The Group expects that the new shop at The Pulse will be officially opened on or before the first quarter of 2014. It is expected that the new shop will be benefited by the strong purchasing power of the residents and visiting tourists at Repulse Bay.

MANAGEMENT DISCUSSION AND ANALYSIS

New distribution channel to an international online shop
The Group is in discussion with an international premier online luxury fashion retailer about the supply of the new "Evidens de Beauté" products line on an exclusive basis for sales on its new online shop to be opened before October 2013 in Hong Kong.

Acquisition of new business
On 30 August 2013, EDS International Holdings Limited ("EDS International"), a wholly-owned subsidiary of the Company, and two independent third parties (the "Vendors") entered into a legal binding term sheet, pursuant to which EDS International agreed to acquire and the Vendors agreed to sell 51% issued share capital of a company (the "Target Company") and the obligations, liabilities and debts owing by or due from the Target Company to the Vendors as at the completion date (the "Acquisition"). The Target Company principally engages in beauty and wellness services in Hong Kong. The Acquisition is subject to a formal share and purchase agreement which is expected to be finalized on or before 30 September 2013. The Acquisition constitutes a very substantial acquisition on the part of the Company under Chapter 19 of the GEM Listing Rules and is therefore subject to shareholders' approval at the extraordinary general meeting of the Company. As at the date of this report, the Company is in the process of preparing an announcement in relation to the Acquisition.

Promotion of the brand "Evidens de Beauté"
The Group will continue to promote the brand and the promotion plan for the "Evidens de Beauté" products is including: (i) to subscribe advertising plan with Prestige Hong Kong edition; (ii) to look into placing new advertisements on local monthly and weekly magazines; (iii) to arrange small group gatherings weekly with beauty editors to share news within the industry and to increase the exposure of the "Evidens de Beauté" brand; (iv) to sponsor Hong Kong Tatler Ball in September 2013 under the brand name "Evidens de Beauté"; (v) to plan to organise a big advertising campaign in the most traffic area towards end of 2013 or early 2014; and (vi) to launch Christmas promotion in 2013.

LITIGATION

On 25 September 2012, a writ of summons (the "Writ") was issued in the High Court of Hong Kong by Blu Spa (Hong Kong) Limited ("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 5 April 2012 (the "Deed of Termination") and four repayment extension agreements dated 4 July 2012, 24 July 2012, 3 August 2012 and 21 August 2012 respectively (collectively, the "Repayment Extension Agreements") entered into between the Plaintiff and Defendant; and (ii) the breach of the Deed of Termination and/or the Repayment Extension Agreements.

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

(a) the outstanding sum of HK$45,000,000.00 (the "Outstanding Sum");

(b) the contractual interest accrued and due on the Outstanding Sum;

MANAGEMENT DISCUSSION AND ANALYSIS

(c) the interest; and

(d) the costs.

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

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

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

    (a) HK$4,050,000.00 payable to the Plaintiff on 13 November 2012;

    (b) HK$1,597,808.20 payable to the Plaintiff on 13 November 2012; and

    (c) HK$36,450,000.00 payable to the Plaintiff on 30 November 2012;

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

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

(a) HK$838,849.32, being the accrued interest from 1 December 2012 to 28 December 2012 (both day inclusive), shall be payable to the Plaintiff on 28 December 2012;

(b) HK$90,000.00, being the legal costs in relation to the Deed of Settlement, shall be payable to the Plaintiff on 28 December 2012; and

(c) RMB29,571,885.00, equivalent to approximately HK$36,450,000.00 (at the exchange rate of 0.8113 as quoted from The People's Bank of China as at 20 December 2012), being the outstanding principal, shall be payable to the receiving agent appointed by the Plaintiff, namely Mr. Yu Shu Kuen, in the mainland China on 28 December 2012.

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

(a) HK$479,342.47, being the accrued interest from 1 January 2013 to 16 January 2013, shall be payable to the Plaintiff on 16 January 2013;

(b) The outstanding principal of HK$36,450,000.00 in its equivalent amount of Renminbi shall be paid to the receiving agent appointed by the Plaintiff, namely Mr. Yu Shu Kuen, in the mainland China on 29 January 2013; and

(c) HK$120,000.00, being the legal costs in relation to the Deed of Settlement, shall be payable to the Plaintiff on 29 January 2013.

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

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

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

(a) HK$1,822,500.00, being 5% of the outstanding principal sum of HK$36,450,000.00 (the "Outstanding Principal Sum") payable on or before 29 January 2013;

(b) HK$389,465.70, being the daily interest accruing for January 2013 (from 17 January 2013 to 29 January 2013) payable on or before 29 January 2013;

(c) HK$1,736,118.49, being the additional daily interest accruing on the new principal balance of HK$34,627,500.00 (the "New Balance") (for the period from 30 January 2013 to 31 March 2013) payable on or before 29 January 2013;

(d) HK$120,000.00, being part contribution to the legal costs of the Plaintiff payable on or before 29 January 2013; and

(e) HK$34,627,500.00, being the New Balance payable on or before 31 March 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

On 31 March 2013, the Defendant defaulted to pay the HK$34,627,500.00 as stated in the Second Deed of Settlement.

On 25 April 2013, the Company announced that the Company agreed to accept the Defendant's repayment proposal on the following terms:

(a) The Defendant shall pay HK$34,627,500.00, being the New Balance to the Company on or before 30 April 2013;

(b) The Defendant shall pay the additional daily interest to the Company for the period from 1 April 2013 to 26 April 2013 in the total sum of HK$739,984.93 on or before 4 p.m. on 26 April 2013. The Defendant shall further pay the additional daily interest to the Company from 26 April 2013 until actual payment on or before 30 April 2013; and

(c) The Defendant shall pay the agreed legal costs of HK$20,000.00 to the Company on or before 30 April 2013.

As announced by the Company on 3 May 2013, the Company received from the Defendant the contractual interest of HK$853,828.77 for the period from 1 to 30 April 2013 and the agreed legal costs of HK$20,000.00.

Upon further negotiations, the Company and the Defendant have principally agreed to a new repayment proposal in which the New Balance of HK$34,627,500.00 and the interest accrued thereon shall be paid by the Defendant in the following manner (the "New Repayment Proposal"):

(a) the contractual interest of HK$882,289.73 for the period from 1 to 31 May 2013 shall be payable on or before 4 p.m. on 31 May 2013;

(b) HK$22,627,500.00 being partial payment of the New Balance shall be payable on or before 4 p.m. on 31 May 2013;

(c) the contractual interest of HK$601,643.84 for the period from 1 June to 31 July 2013 shall be payable on or before 4 p.m. on 31 May 2013; and

MANAGEMENT DISCUSSION AND ANALYSIS

(d) HK$12,000,000.00 being the remaining balance of the New Balance shall be payable on or before 4 p.m. on 31 July 2013.

Further, Dutfield International Group Company Limited ("Dutfield") has agreed to guarantee, unconditionally and irrevocably, as a principal debtor and not merely as a surety, that it shall be jointly and severally liable to the Company for the Defendant's debts and liabilities under the legal proceedings. Dutfield undertakes that if and whenever the Defendant shall be in default in any of the above payments when it becomes due and payable, Dutfield shall on demand make immediate payment of any outstanding balance of the Defendant's debt due to the Company under the legal proceedings.

Dutfield is also a plaintiff in the legal proceedings for, among others, the claim for the sum of HK$141,360,000.00 under a loan agreement (the "Dutfield Loan Agreement") and in default of full payment of such sums found due by the court, an order for sale of the property mortgaged (the "Mortgaged Property") to Dutfield under a second mortgage (the "Second Mortgage") with the proceeds of sale to be applied to firstly discharge the liabilities under the first mortgage (the "First Mortgage") and secondly discharge the liabilities under the Dutfield Loan Agreement and the Second Mortgage. The Company, the Defendant and Dutfield have agreed that any proceeds received by Dutfield in such proceedings shall be paid to the Company immediately as the set off of the Defendant's debt due to the Company under the legal proceedings against the Defendant without being affected by the payment schedule agreed between the Company and the Defendant in any event.

Dutfield is owned as to 50% by Ms. Chan Choi Har Ivy, a former executive Director and as to 50% by Mr. Law Kin Ming Alfred, the husband of Ms. Chan Choi Har Ivy.

On 30 May 2013, Dutfield executed a deed of guarantee in favour of the Company pursuant to which, amongst others:

(1) The Company agrees not to commence or continue any proceedings against the Defendant provided that the Defendant shall pay to the Company the following amounts (the "Payment Obligations") by way of cashier order or solicitors' cheque on or before the following specified dates:

    (a) contractual interest of HK$882,289.73 for the period from 1 to 31 May 2013 payable on or before 4 pm on 11 June 2013;

    (b) HK$22,627,500.00 being partial payment of the principal of HK$34,627,500.00 (the "Settlement Sum") payable on or before 4 pm on 28 June 2013;

    (c) contractual interest of HK$601,643.84 for the period form 1 June to 31 July 2013 payable on or before 4pm on 28 June 2013; and

    (d) HK$12,000,000.00 being the remaining balance of the Settlement Sum payable on or before 4pm on 31 July 2013; and

MANAGEMENT DISCUSSION AND ANALYSIS

(2) Dutfield guarantees, unconditionally and irrevocably, as principal debtor and not merely as surety, to the Company for the Payment Obligations of the Defendant. Dutfield further specifically undertakes with the Company that if and whenever the Defendant shall be in default in respect of any of the Payment Obligations when it becomes due and payable, Dutfield shall on demand make immediate payment of any outstanding thereof, together with interest thereon, to the Company.

As at the date of this report, save as the contractual interest of HK$882,289.73 for the period from 1 to 31 May 2013, the Company has not received any sum from the Defendant under the Payment Obligations. On 25 July 2013, a consent order was granted by the Court of First Instance of the High Court of the Hong Kong Special Administrative Region that, amongst others, the Company be granted leave to substitute BSHK as the plaintiff in the legal action against the Defendant. An amended statement of claim was filed on about 30 July 2013. At the hearing of the Company's application for summary judgement held on 6 September 2013, the Court adjudged that the Defendant (i) do pay the Company the sum of HK$39,127,500.00 together with contractual interest thereon calculated from day to day at the rate of 30% per annum from 1 May 2013 to 6 September 2013, and thereafter at judgement rate pursuant to s. 48 of High Court Ordinance until payment, i.e 8% per annum from 7 September 2013 until payment; and (ii) shall pay the Company the costs of this action including the costs of the Company's judgement to be taxed if not agreed. The Company will demand the Defendant's immediate payment of the judgement debt. If the Defendant fails and/or refuses to pay the judgement debt, the Company will take enforcement proceedings against the Defendant to recover it.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS AND REQUIRED TO BE DISCLOSED IN ACCORDANCE WITH RULE 17.50A(1) OF THE GEM LISTING RULES

Mr. Yu Shu Kuen, one of the executive Directors, has changed his name to Yu Zhen Hua Johnny and renounced and abandoned the use of his former name after the adoption of the new name.

Save as disclosed above and to the best of the Directors' knowledge, there was no change in any of the information which is required to be disclosed by Directors pursuant to paragraphs (a) to (e) and (g) of Rule 17.50(2) since the publication of the Company's interim report for the six months ended 31 December 2012 up to 6 September 2013 (being the date of approval of this report).

DIRECTORS AND SENIOR MANAGEMENT PROFILE

EXECUTIVE DIRECTORS

Mr. Yu Zhen Hua Johnny ("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 authorized 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, he 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 39, joined the Company as executive Director on 27 July 2011. He has over 16 year 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 50, 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.

Mr. Lee Chan Wah ("Mr. Lee"), aged 45, 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 authorized representative and directors of various subsidiaries of the Company. Mr. Lee has over 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.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

NON-EXECUTIVE DIRECTOR

Mr. Du JuanHong ("Mr. Du") aged 37, 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 45, 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.

Mr. Chu King Wang Peleus ("Mr. Chu") aged 49, 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 Limited (stock code: 1998) and China Vehicle Components Technology Holdings Limited (stock code: 1269), all the companies are listed on the Main Board of the Stock Exchange, since 2007, 2009, 2010 and 2011 respectively and Telecom Service One Holdings Limited (stock code: 8145), a company listed on the GEM Board of the Stock Exchange, since 2013. 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

DIRECTORS AND SENIOR MANAGEMENT PROFILE

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 39, 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 21 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 2013.

PRINCIPAL ACTIVITIES

The Company is an investing holding company. The principal activities of its subsidiaries are set out in note 36 to the consolidated financial statements. There was no significant change in the principal activities of the Company during the year.

RESULTS

Details of the Group's results for year ended 30 June 2013 are set out in the consolidated statement of profit or loss and other comprehensive income on page 47 of this report.

DIVIDENDS

The Board does not recommend the payment of any dividend for the year ended 30 June 2013 (2012: Nil).

FINANCIAL SUMMARY

The summary of the results and the assets and liabilities of the Group for the past five financial years is set out on page 120 of this report.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 29 to the consolidated financial statements.

RESERVES

Details of the movement 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 50 and note 30 to the consolidated financial statements respectively.

DIRECTORS' REPORT

DISTRIBUTABLE RESERVE

The Company did not have any reserves available for distribution to the shareholders of the Company as at 30 June 2013 (2012: Nil).

EVENTS AFTER THE REPORTING PERIOD

Details of significant events occurred after the reporting period are set out in note 35 to the consolidated financial statements.

CHARITABLE DONATIONS

During the year, the Group made donations of approximately HK$296,000 to charitable and non-profit-making organisations (2012: 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 Chairman on 16 August 2012)
Mr. Wang XF
Mr. Wang SZ
Mr. Lee (appointed on 16 August 2012)
Mr. Ji Hequn (resigned on 27 July 2012)

Non-executive Director
Mr. Du *(Chairman)* (resigned as Chairman on 16 August 2012)

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

In accordance with article 84(1) of the articles of association of the Company (the "Articles"), Mr. Wang XF, Mr. Tam and Mr. Chu will retire from office by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

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' REPORT

DIRECTORS' SERVICE CONTRACTS

None of the Directors being proposed for re-election at the AGM has a services 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, 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 2013.

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 2013, 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 Division 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were 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 Rules 5.46 of the GEM Listing Rules, were as follows:

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

Name of Director	**Nature of interests**	**Number of shares held**	**Approximate percentage of shareholding** (Note 2)
Mr. Wang XF	Personal interest	230,400,000	17.56%
Mr. Du	Corporate interest	106,580,000 (Note 1)	8.12%

DIRECTORS' REPORT

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. The percentage is calculated on the basis of 1,312,200,000 shares of the Company in issue as at 30 June 2013.

Save as disclosed above, as at 30 June 2013, 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 Division 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have 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 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 and chief executives of the Company or any of their respective spouses or children under 18 years of age 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 12 to the consolidated financial statements.

DIRECTORS' REPORT

COMPETING INTERESTS

As at 30 June 2013, none of the Directors, substantial shareholders of the Company nor any of their respective associates (as defined in the GEM Listing Rules) had any interest in a business which causes or may cause any significant competition with the business of the Group.

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

As at 30 June 2013, 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	Interest in shares	Interest in underlying shares	Total interest in shares	Approximate percentage of shareholding
Wintek	Beneficial owner	106,580,000	—	106,580,000	8.12% (Note 2)
Eternity Investment Limited (Note 1)	Interest of controlled corporation (Note 1)	—	40,000,000 (Note 1)	40,000,000 (Note 1)	304.83% (Note 3)

Notes:

1. New Cove Limited ("New Cove") is interested in 40,000,000 new shares, upon the capital reorganisation as disclosed in the circular of the Company dated 24 January 2013 becoming effective, pursuant to the subscription agreement entered into between the Company and New Cove dated 21 March 2013. Subject to the fulfillment of the conditions precedent as set out in the subscription agreement, the Company shall issue convertible bonds to New Cove in the principal amount of HK$40,000,000 (the "Convertible Bonds"). The Convertible Bonds shall carry no interest and may be converted into new shares at an initial conversion price of HK$1.00 per conversion share, subject to adjustment. Eternity Investment Limited, a company listed on the Main Board of the Stock Exchange, is the ultimate holding company of New Cove, is deemed to be interested in 40,000,000 new shares. Details of the subscription agreement were set out in the circular of the Company dated 23 May 2013.

2. The percentage is calculated on the basis of 1,312,200,000 shares of the Company in issue as at 30 June 2013.

DIRECTORS' REPORT

3. The percentage is calculated on the basis of 13,122,000 new shares of the Company assuming the capital reorganization as disclosed in the circular of the Company dated 24 January 2013 becoming effective.

Save as disclosed above, as at 30 June 2013, 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 persons or corporation (other than the Directors and 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.

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 recognize 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, 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 32 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate purchases attributable to the Group's largest supplier accounted for approximately 88% (2012: 54%) of the Group's total purchase for the year ended and the five largest suppliers taken together accounted for approximately 100% (2012: 100%) of the Group's total purchase for the year.

DIRECTORS' REPORT

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 of the Company (which to the knowledge of the Directors owns 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

During the year, there was no connected transaction or continuing connected transactions under the GEM Listing Rules which are required to comply with any of the reporting, announcement, or independent Shareholders' approval requirements thereunder. The material related party transactions were set out in note 34 to the consolidated financial statements of the Company constituted connected transactions but are exempted from the reporting, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

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

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

MANAGEMENT CONTRACTS

During the year, 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 law of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders of the Company.

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 September 2013, 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.

DIRECTORS' REPORT

AUDITORS

The consolidated financial statements for the year ended 30 June 2013 were audited by HLB Hodgson Impey Cheng Limited whose term of office will expire upon the forthcoming annual general meeting. A resolution for the re-appointment of HLB Hodgson Impey Cheng Limited as the auditors of the Company for the subsequent year is to be proposed at the forthcoming annual general meeting. The consolidated financial statements for the year ended 30 June 2011 and 2012 were audited by HLB Hodgson Impey Cheng.

In March 2012, the practice of HLB Hodgson Impey Cheng was reorganised as HLB Hodgson Impey Cheng Limited. Save for the above, there has been no other change in the auditors of the Company in any of the preceding three years.

On behalf of the Board

Yu Zhen Hua Johnny
Chairman

Hong Kong, 6 September 2013

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.

On 28 February 2013, the Company engaged ZHONGLEI Risk Advisory Services Limited ("ZHONGLEI") to conduct a review of the Group's internal control system (the "ICR Review"). The compliance with the CG Code and Report is one of the scopes of the ICR Review. An ICR Review report was issued by ZHONGLEI on 16 April 2013 in which recommendations were made by ZHONGLEI to the management of the Company for the improvement of the internal control of the Group in accordance with deficiencies identified in the relevant financial procedures, systems and internal controls of the Group. On 5 September 2013, a follow-up review report (the "Follow-Up Review Report") was issued by ZHONGLEI for the purpose to follow up the progress for the procedures implemented by the management to enhance and improve the Group's internal control system.

During the year, 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 as stated below.

SECURITIES TRANSACTIONS BY DIRECTORS

During the year, 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 Hequn, 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.

Code provision A.6.4 of the CG Code and Report stipulates that the board should establish written guidelines no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers for relevant employees in respect of their dealings in the Company's securities. In accordance with the findings of the Follow-Up Review Report, on 28 August 2013, the Board adopted the "Code for Securities Transactions for Directors" and "Code for Securities Transactions for Relevant Employees" to comply with the code provision.

CORPORATE GOVERNANCE REPORT

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, the setting of objectives, annual budgets and overall strategies, material transaction, appointment of directors and other significant financial and operational matters. The day-to-day management, administration and operation of the Company are delegated to the senior executives. These responsibilities include the implementation of decisions of the Board, the co-ordination and direction of day-to-day operation and management of the Company in accordance with the management strategies and plans approved by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by these senior executives and the Board has the full support of them to discharge its responsibilities.

Code provisions D.1.1, D.1.2 and D.1.3 of the CG Code and Report stipulate that the board must give clear directions as to the powers of management, formalize the functions reserved to the board and those delegated to management and disclose the respective responsibilities, accountabilities and contributions of the board and management respectively. During the year, no formal written document was established to specify and formalize the functions reserved to the board and delegated to management and the division of responsibilities, accountabilities and contributions between the board and management. In accordance with the findings of the Follow-Up Review Report, on 28 August 2013, the Board adopted the statements of "Board and Management Functions" and the "Delegated Authority Policy" to comply with these code provisions.

Corporate governance functions

Code provisions D.3.1 of the CG Code and Report stipulates that the terms of reference of the board (or a committee or committees performing this function) should include at least the duties specified in the CG Code and Report. During the year, no formal terms of reference of the Board was established. In accordance with the findings of the Follow-Up Review Report, on 28 August 2013, the Board adopted the "Terms of Reference — Board of Directors" to comply with the code provision.

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 Hai, an independent non-executive Director, pursuant to a special resolution passed at the extraordinary general meeting held on 8 May 2012, the number of independent non-executive Directors fell below the requirement pursuant to Rule 5.02(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 21 to 23 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 interest of the Shareholders and the Company as a whole.

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.

CORPORATE GOVERNANCE REPORT

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 37 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. Code provision A.1.3 of the CG Code and Report stipulates that notice of at least 14 days should be given to all Directors of a regular Board meeting. All Directors are given an opportunity to attend and include matters in the agenda for discussion. For the period from 1 July 2012 to 31 March 2013, at least 7 business days' notice are given to all Directors of all regular board meetings. In accordance with the findings of the Follow-Up Review Report, sufficient notice are given to all Directors of a regular board meeting held on 19 April 2013.

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 or other authorised person take 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 38 of this report.

Directors' Training

Pursuant to code provision A.6.5 of the CG Code and Report, which has same 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

ROLES OF CHAIRMEN 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 Zhen Hua Johnny 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 DIRECTOR

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, 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, 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.

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 management, and reviewing and approving performance-based remuneration.

As at 30 June 2013 and up to 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.

CORPORATE GOVERNANCE REPORT

During the year, the remuneration committee held one meeting.

Nomination Committee

The Company established the Nomination Committee with written terms of reference in compliance with the GEM Listing Rules. 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 2013 and up to the 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 held one meeting during the year ended 30 June 2013.

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 2013, 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 4 meetings during the year ended 30 June 2013, 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 2013 and provided advice and comments thereon.

DIRECTORS' ATTENDANCE RECORD AT MEETINGS

Details of the attendance of the Directors at the meeting of the Board and its respective committees during the year ended 30 June 2013 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	Annual General Meeting Attended/Eligible to attend	Extraordinary General Meeting Attended/Eligible to attend
Executive Directors							
Mr. Yu		26/26	—	1/1	1/1	2/2	2/2
Mr. Wang XF		26/26	—	—	—	0/2	0/2
Mr. Wang SZ		26/26	—	—	—	2/2	2/2
Mr. Lee	2	24/24	—	—	—	1/1	2/2
Mr. Ji Hequn	1	1/1	—	—	—	1/1	—
Alternate Director							
Mr. Lee (as Alternate Director to Mr Wang XF)		1/1	—	—	—	—	—
Non-executive Director							
Mr. Du		26/26	—	—	—	1/2	1/2
Independent Non-executive Directors							
Mr. Tam		26/26	4/4	—	1/1	2/2	2/2
Mr. Chu		26/26	4/4	1/1	1/1	0/2	0/2
Mr. Tse	3	24/24	4/4	1/1	—	1/1	2/2

Notes:

1. Mr. Ji Hequn resigned with effect from 27 July 2012.

2. Mr. Lee was appointed with effect from 16 August 2012.

3. Mr. Tse was appointed with effect from 16 August 2012.

AUDITORS' REMUNERATION

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

	2013	2012
	HK$'000	*HK$'000*
Services rendered:		
Audit services	**1,030**	1,000
Other services	**Nil**	Nil

CORPORATE GOVERNANCE REPORT

FINANCIAL REPORTING

Code provision C.1.2 of the CG Code and Report 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 details. During the year, 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.

In accordance with the findings of the Follow-Up Review Report, started from August 2013, all members of the Board are provided with monthly consolidated financial statements giving balanced and understandable assessment of the Company's performance, position and prospects in sufficient details.

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, on the financial statements prepared by the Directors and report the opinion solely to the Shareholders.

INTERNAL CONTROLS

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

After the issue of the Review report on 16 April 2013 by ZHONGLEI, the management of the Company had implemented procedures to address the deficiencies found in the internal control system of the Group. A Follow-Up Review report was issued by ZHONGLEI dated 5 September 2013, pursuant to which a majority of the deficiencies identified by ZHONGLEI in the ICR Review report had been improved.

CORPORATE GOVERNANCE REPORT

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 Boards. The general meetings of the Company provide an opportunity for communication between the Shareholders and the Board. The Chairman and two members of the Audit Committee attended the 2012 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 registered office in Hong Kong at 19/F., Prosperity Tower, No. 39 Queen's Road Central, Central, 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.

Code provision E.1.4 of the CG Code and Report stipulates the board should establish a shareholders' communication policy and review it on a regular basis to ensure its effectiveness. During the year, no formal shareholders' communication policy was established. In accordance with the findings of the Follow-Up Review Report, on 28 August 2013, the Board adopted the "Shareholders Communication Policy" to comply with the code provision.

INDEPENDENT AUDITORS' REPORT

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
EDS WELLNESS HOLDINGS LIMITED
(Formerly known as China AU Group Holdings Limited)
(Incorporated in the Cayman Islands with limited liability)

We were engaged to audit the consolidated financial statements of EDS Wellness Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 47 to 119, which comprise the consolidated and company statements of financial position at 30 June 2013, and consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors of the Company determine is necessary to enable the preparation of 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) Investment 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 ("**BSHK**") and its subsidiaries (the "**BSHK Group**"), Blu Spa International Limited and Blu Spa Management Services Limited (together, the "**Unconsolidated Subsidiaries**") for the year ended 30 June 2013. 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 2013.

Furthermore, the Company made an announcement dated 19 February 2013 that written resolutions were passed by the sole director of BSHK, among other things, to voluntarily wind-up BSHK. The notice of appointment of joint and several liquidators were published on the government gazette on 26 February 2013. The Company also made an announcement dated 9 April 2013 regarding the result of the Company's engagement of an independent professional firm to investigate and comment on the reasons of the resignation of the former auditors of the Group and the basis for disclaimer of opinion in respect of the Group's consolidated financial statements for the year ended 30 June 2011 (the "**Forensic Investigation**") and the findings of the Forensic Investigation indicate that there were possible irregularities in respect of a considerable number of past transactions and possible misstatements of certain transactions and balances recorded in the books and records of the Group which mainly concern the Group's operation involving in the BSHK Group.

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 2013 under these circumstances, the exclusion of the financial position, results and cash flows of the 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". Had the Unconsolidated Subsidiaries been consolidated, many elements in the consolidated financial statements would have been materially affected.

INDEPENDENT AUDITORS' REPORT

BASIS FOR DISCLAIMER OF OPINION (Continued)

(1) Investment in unconsolidated subsidiaries (Continued)

Due to lack of complete books and records of the Unconsolidated Subsidiaries mentioned above, we are unable to ascertain the impact of the potential irregularities with respect to the accounting records and transactions of the Unconsolidated Subsidiaries, if any, and the de-consolidation of the Unconsolidated Subsidiaries on the consolidated financial statements. We have also not been able to obtain sufficient appropriate evidence and explanations to determine whether the carrying amounts of the investments in the Unconsolidated Subsidiaries were free from material misstatements. 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 2013 and the loss and cash flows of the Group for the year ended 30 June 2013.

(2) Balances with the Unconsolidated Subsidiaries

As further explained in note 2 to the consolidated financial statements, the Group and the Company had a total amounts due from the Unconsolidated Subsidiaries of approximately HK$241,847,000 and HK$238,883,000 respectively at 30 June 2013 of which accumulated impairment losses of approximately HK$240,593,000 and HK$237,641,000 were recognised in the previous years. The directors of the Company are of the view that the carrying amounts of these amounts were not recoverable and impairment loss of approximately HK$1,254,000 was recognised for the year ended 30 June 2013. In addition, the Group recorded amounts due to the Unconsolidated Subsidiaries of approximately HK$1,309,000 at 30 June 2013.

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 amounts due from and due to the Unconsolidated Subsidiaries (together, 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 free from material misstatements. 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 2013 and the loss of the Group and the Company for the year ended 30 June 2013.

INDEPENDENT AUDITORS' REPORT

BASIS FOR DISCLAIMER OF OPINION (Continued)

(3) Other receivable

Included in "Deposits, prepayments and other receivables" in the consolidated and the Company statement of financial position at 30 June 2013 was other receivable of approximately HK$40,207,000 (the "**Other Receivable**") due from a debtor (the "**Debtor**"). As further explained in note 22 to the consolidated financial statements, the Debtor has defaulted the repayment of the Other Receivable and the Company has taken legal actions against the Debtor. Up to the date of this report, no settlement of the Other Receivable was made by the Debtor. No impairment loss was recognised for the Other Receivable for the year ended 30 June 2013. We were unable to obtain sufficient appropriate audit evidence regarding to the valuation of the Other Receivable and there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the Other Receivable was free from material misstatement. 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 2013 and the loss of the Group and the Company for the year ended 30 June 2013.

(4) Impairment loss of investment costs and balances due from the subsidiaries other than the Unconsolidated Subsidiaries

As further explained in note 19 to the consolidated financial statements, the Company's interests in subsidiaries at 30 June 2013 comprised of investments at cost of approximately HK$3,000 and amounts due from subsidiaries (other than the Unconsolidated Subsidiaries) of approximately HK$28,177,000. No impairment losses were recognised for such balances for the year ended 30 June 2013. We were unable to obtain sufficient appropriate audit evidence regarding to the valuation of such balances and there were no alternative audit procedures that we could perform to satisfy ourselves as to whether such balances were free from material misstatement. Any adjustments that might have been found to be necessary would have a consequential significant effect on the net assets of the Company at 30 June 2013 and the loss of the Company for the year ended 30 June 2013.

(5) Opening balances and corresponding figures

The opening balances and corresponding figures disclosed in the consolidated financial statements are based on the audited financial statements of the Group and the Company for the year ended 30 June 2012 in respect of which our audit opinion dated 6 December 2012 expressed a disclaimer opinion. The matters which resulted in that the disclaimer opinion included (1) opening balances and corresponding figures, (2) investments in unconsolidated subsidiaries, (3) balances with the Unconsolidated Subsidiaries, (4) material uncertainty relating to the Investigation and (5) material uncertainties relating to the going concern basis. Therefore, the opening balances and corresponding figures shown may not be comparable and any adjustments to the opening balances at 1 July 2012 would have consequential effect on the loss for the year ended 30 June 2013 and/or the net assets of the Group and the Company at 30 June 2013.

INDEPENDENT AUDITORS' REPORT

BASIS FOR DISCLAIMER OF OPINION (Continued)

(6) Going concern basis of accounting

As further explained in note 2 to the consolidated financial statements, the Group incurred net loss of approximately HK$23,568,000 during the year ended 30 June 2013 and the Group and the Company recorded a net current liabilities amounted approximately HK$6,263,000 and HK$8,473,000 respectively at 30 June 2013, which indicates the existence of a material uncertainty which may cause 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 Other Receivable of HK$40,207,000 of which details were set out in the note 22(c) to the consolidated financial statements; (ii) the extension of repayment of loan facility of approximately HK$42,400,000 granted by a company owned by an executive director of which details were set out in the Company's announcement dated 30 August 2013; (iii) the completion of the conditional subscription agreement, in which was under certain conditions as further explained in note 2, in respect of the issue of convertible bonds in the principal amount of HK$40,000,000 of which details were set out in the Company's announcements dated 21 March 2013, 11 April 2013, 25 April 2013, 9 May 2013, 24 May 2013, 11 June 2013 and the Company's circular dated 23 May 2013 and (iv) the completion of the conditional unsecured loan agreement, in which was under certain conditions as further explained in note 2, in the principal amount of HK$40,000,000 of which details were set out in the Company's announcements dated 21 March 2013, 11 April 2013, 25 April 2013, 9 May 2013, 24 May 2013, 11 June 2013 and the Company's circular dated 23 May 2013 (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, any 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 going concern basis.

INDEPENDENT AUDITORS' REPORT

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 and as to whether the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Yu Chi Fat
Practising Certificate Number: P05467

Hong Kong, 6 September 2013

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2013

	Notes	2013 HK$'000	2012 HK$'000
Turnover	8	**8,140**	702
Cost of sales		**(11,686)**	(1,213)
Gross loss		**(3,546)**	(511)
Other income	10	**9,121**	987
Selling and distribution costs		**(2,292)**	(2)
Administrative expenses		**(21,848)**	(7,809)
Impairment loss recognised in respect of intangible asset	17	**—**	(7,488)
Impairment loss recognised in respect of deposits, prepayments and other receivables	22	**(1,254)**	(240,593)
Gain on de-consolidation of subsidiaries	31	**—**	155,547
Finance costs	11	**(3,749)**	(520)
Loss before tax	13	**(23,568)**	(100,389)
Income tax expense	14	**—**	—
Loss for the year		**(23,568)**	(100,389)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**9**	—
Release of translation reserve upon de-consolidation of subsidiaries	31	**—**	4
Other comprehensive income for the year		**9**	4
Total comprehensive expenses for the year		**(23,559)**	(100,385)
Loss for the year attributable to:			
Owners of the Company		**(23,568)**	(100,389)
Total comprehensive expenses for the year attributable to:			
Owners of the Company		**(23,559)**	(100,385)
Loss per share (HK cents)	16		
— Basic and diluted		**(1.80)**	(7.71)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2013

	Notes	2013 HK$'000	2012 HK$'000
Non-current assets			
Intangible asset	17	—	—
Property, plant and equipment	18	**8,301**	3,156
		8,301	3,156
Current assets			
Inventories	20	**1,137**	1,943
Trade receivables	21	**646**	225
Deposits, prepayments and other receivables	22	**41,932**	52,047
Bank balances and cash	23	**1,815**	308
		45,530	54,523
Current liabilities			
Amount due to a former director	24	**64**	64
Deposits from customers	25	**455**	551
Accruals and other payables	26	**8,831**	11,451
Obligation under financial leases	27	**43**	105
Other borrowing	28	**42,400**	19,586
		51,793	31,757
Net current (liabilities)/assets		**(6,263)**	22,766
Total assets less current liabilities		**2,038**	25,922
Non-current liability			
Obligation under financial leases	27	**124**	449
Net assets		**1,914**	25,473
Equity attributable to owners of the Company			
Share capital	29	**131,220**	131,220
Reserves		**(129,306)**	(105,747)
Total equity		**1,914**	25,473

Approved and authorised for issue by the Board of Directors on 6 September 2013 and are signed on its behalf by:

Yu Zhen Hua Johnny *Director*	**Lee Chan Wah** *Director*

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

STATEMENT OF FINANCIAL POSITION

At 30 June 2013

	Notes	2013 HK$'000	2012 HK$'000
Non-current assets			
Property, plant and equipment	18	**9**	1,815
Interests in subsidiaries	19	**28,180**	3,557
		28,189	5,372
Current assets			
Deposits, prepayments and other receivables	22	**40,438**	47,786
Bank balances and cash	23	**179**	162
		40,617	47,948
Current liabilities			
Amount due to a former director	24	**64**	64
Accruals and other payables	26	**6,626**	4,703
Obligation under finance lease	27	**—**	97
Other borrowing	28	**42,400**	19,586
		49,090	24,450
Net current (liabilities)/assets		**(8,473)**	23,498
Total assets less current liabilities		**19,716**	28,870
Non-current liability			
Obligation under finance lease	27	**—**	417
Net assets		**19,716**	28,453
Equity attributable to owners of the Company			
Share capital	29	**131,220**	131,220
Reserves	30	**(111,504)**	(102,767)
Total equity		**19,716**	28,453

Approved and authorised for issue by the Board of Directors on 6 September 2013 and are signed on its behalf by:

Yu Zhen Hua Johnny	**Lee Chan Wah**
Director	*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 2013

	Share capital *HK$'000*	Share premium *HK$'000*	Merger reserve *HK$'000* (Note 1)	Translation reserve *HK$'000* (Note 2)	Accumulated losses *HK$'000*	Total equity *HK$'000*
At 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 expenses for the year	—	—	—	4	(100,389)	(100,385)
Placement of shares	11,000	5,500	—	—	—	16,500
Transaction costs on placement of shares	—	(412)	—	—	—	(412)
At 30 June 2012 and 1 July 2012	131,220	175,357	22,734	—	(303,838)	25,473
Loss for the year	—	—	—	—	(23,568)	(23,568)
Other comprehensive income for the year:						
Exchange differences on translating foreign operations	—	—	—	9	—	9
Total comprehensive expenses for the year	—	—	—	9	(23,568)	(23,559)
At 30 June 2013	**131,220**	**175,357**	**22,734**	**9**	**(327,406)**	**1,914**

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 2013

	2013 HK$'000	2012 HK$'000
Operating activities		
Loss before tax:	**(23,568)**	(100,389)
Adjustments for:		
Interest income	**(4,553)**	—
Interest expenses	**3,749**	520
Loss on disposal of property, plant and equipment	**122**	—
Gain on disposal of property, plant and equipment	**(53)**	—
Gain on defaulted payment of the refundable deposit	**(4,500)**	—
Depreciation on property, plant and equipment	**1,571**	126
Gain on de-consolidation of subsidiaries	**—**	(155,547)
Written off of deposits, prepayments and other receivables	**192**	—
Impairment loss recognised in respect of intangible assets	**—**	7,488
Impairment loss recognised in respect of deposits, prepayments and other receivables	**1,254**	240,593
Written down of property, plant and equipment	**1,145**	—
Operating cash flows before movements in working capital	**(24,641)**	(7,209)
Decrease/(increase) in inventories	**806**	(1,943)
Increase in trade receivables	**(421)**	—
Decrease/(increase) in deposits, prepayments and other receivables	**13,168**	(28,312)
(Decrease)/increase in accruals and other payables	**(2,619)**	5,443
Decrease in amount due to a former director	**—**	(18)
(Decrease)/increase in deposits from customers	**(96)**	551
Cash used in operating activities	**(13,803)**	(31,488)
Interest paid	**(3,749)**	(520)
Net cash used in operating activities	**(17,552)**	(32,008)
Investing activities		
Net cash outflows from de-consolidation of subsidiaries	**—**	(66)
Proceeds from disposal of property, plant and equipment	**1,814**	17
Purchases of property, plant and equipment	**(9,744)**	(2,719)
Interest received	**4,553**	—
Net cash used in investing activities	**(3,377)**	(2,768)

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

For the year ended 30 June 2013

	2013	2012
	HK$'000	*HK$'000*
Financing activities		
Proceeds from other borrowing	**24,905**	19,780
Repayment of other borrowing	**(2,091)**	(2,194)
Proceed from issue of new shares	**—**	16,500
Payment of transaction costs attributable to issue of shares	**—**	(412)
Proceed from obligation under finance lease	**150**	—
Repayment of obligation under finance leases	**(537)**	(26)
Net cash generated from financing activities	**22,427**	33,648
Net increase/(decrease) in cash and cash equivalents	**1,498**	(1,128)
Cash and cash equivalents at 1 July	**308**	1,436
Effect of foreign exchange rate changes	**9**	—
Cash and cash equivalents at 30 June	**1,815**	308
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**1,815**	308

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

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 36.

2. BASIS OF PREPARATION OF THE CONSOLIDATED 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 de-consolidation of certain subsidiaries of the Group as explained below. In addition, the consolidated financial statements include applicable disclosures required by the GEM Listing Rules and the disclosure requirements of the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost basis.

Certain comparative figures have been reclassified to conform with current year's presentation, in which the trade receivables have been increased and other receivables have been decreased by approximately HK$225,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

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

Going concern basis

These consolidated financial statements have been prepared on a going concern basis notwithstanding that the Group incurred a loss of approximately HK$23,568,000 for the year ended 30 June 2013 (for the year ended 30 June 2012: approximately HK$100,389,000) and the Group and the Company recorded a net current liabilities of approximately HK$6,263,000 and HK$8,473,000 respectively, which indicates the existence of a material uncertainty which may cause significant doubt about the Group's ability to continue as a going concern.

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

The 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 Other Receivable due from a debtor of approximately HK$40,207,000 (for the year ended 30 June 2012: HK$Nil) of which details were set out in note 22(c) to the consolidated financial statements; (ii) the extension of repayment of loan facility of approximately HK$42,400,000 (for the year ended 30 June 2012: approximately HK$19,586,000) granted by a company owned by an executive director of which details were set out in the Company's announcement dated 30 August 2013; (iii) the completion of the conditional subscription agreement in respect of the issue of convertible bonds in the principal amount of HK$40,000,000 of which details were set out in the Company's announcements dated 21 March 2013, 11 April 2013, 25 April 2013, 9 May 2013, 24 May 2013, 11 June 2013 and the Company's circular dated 23 May 2013 and (iv) the completion of the conditional unsecured loan agreement in the principal amount of HK$40,000,000 of which details were set out in the Company's announcements dated 21 March 2013, 11 April 2013, 25 April 2013, 9 May 2013, 24 May 2013, 11 June 2013 and the Company's circular dated 23 May 2013 (the "Proposed Plans").

The completion of the subscription agreement in respect of the issue of convertible bonds in the principal amount of HK$40,000,000 ("Subscription Agreement") is conditional upon:

(a) the passing of the necessary resolution(s) by the independent shareholders who are allowed to vote under the GEM Listing Rules, The Hong Kong Code on Takeovers and Mergers ("Takeovers Code") and/or other applicable laws and regulations approving separately at the extraordinary general meeting (i) the Subscription Agreement and the transaction contemplated thereunder (including but not limited to the issue of the convertible bonds and the allotment and issue of the conversion shares); and (ii) the grant of whitewash waiver by the Securities and Future Commission of Hong Kong ("SFC");

(b) the listing committee of Growth Enterprise Market of The Stock Exchange of Hong Kong Limited having granted the listing of and permission to deal in, the conversion shares;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

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

Going concern basis (Continued)

(c) the warranties under the Subscription Agreement remaining true and correct in all material respects;

(d) all necessary consents and approvals (including but not limited to approval from the Board and the relevant regulatory approval pursuant to the GEM Listing Rules and the Takeovers Code) as may be required to be obtained by the Company in respect of the Subscription Agreement and the transactions contemplated thereby having been obtained;

(e) the publication of an announcement of the subscriber holding in relation to the Subscription Agreement and the transactions contemplated thereunder in compliance with Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules");

(f) the granting of whitewash waiver by SFC; and

(g) the capital reorganisation having become effective.

The completion of the unsecured loan agreement in the principal amount of HK$40,000,000 ("Loan Agreement") is conditional upon the fulfillment of the following conditions:

(a) completion of the Subscription Agreement;

(b) the publication of an announcement of the subscriber holding in relation to the Subscription Agreement and the Loan Agreement and the transactions contemplated respectively thereunder in compliance with Chapter 14 of the Listing Rules; and

(c) the passing of the necessary resolution(s) by the independent shareholders who are allowed to vote under the GEM Listing Rules, the Takeovers Code and/or other applicable laws and regulations approving at the extraordinary general meeting the Loan Agreement and the transaction contemplated thereunder.

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.

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

Going concern basis (Continued)

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.

Investment in unconsolidated subsidiaries

The consolidated financial statements for the year ended 30 June 2013 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, Blu Spa (Hong Kong) Limited ("BSHK") and its subsidiaries (the "BSHK Group"), Blu Spa International Limited and Blu Spa Management Services Limited (together, the "Unconsolidated Subsidiaries") for the year ended 30 June 2013, 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 2013.

On 19 February 2013, the Board announced that the sole director of BSHK proposed to voluntarily wind-up BSHK and appointed Messrs. Osman Mohammed Arab and Wong Kwok Keung as joint and several provisional liquidators. The notice of appointment of joint and several liquidators were published on the government gazette on 26 February 2013. Upon the appointment of the liquidators, the assets of BSHK will be realised, where possible and appropriate. The estimated loss to the Group arising from the winding-up of BSHK will be approximately HK$1.2 million. Details of which were set out in the Company's announcement dated 19 February 2013.

As set out in the Company's announcement dated 9 April 2013, regarding the result of the Company's engagement of an independent professional firm to investigate and comment on the reasons of the resignation of the former auditors of the Group and the basis for disclaimer of opinion in respect of the Group's consolidated financial statements for the year ended 30 June 2011 (the "Forensic Investigation") and the findings of the Forensic Investigation indicate that there were possible irregularities in respect of a considerable number of past transactions and possible misstatements of certain transactions and balances recorded in the books and records of the Group which mainly concern the Group's operation involving in the BSHK Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

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

Investment in unconsolidated subsidiaries (Continued)

Given these circumstances, the Directors have not consolidated the financial statements of the Unconsolidated Subsidiaries in these consolidated financial statements. 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. At 30 June 2013, the amounts due from the Unconsolidated Subsidiaries to the Group and the Company of approximately HK$241,847,000 and HK$238,883,000 respectively of which accumulated impairment losses of approximately HK$240,593,000 and HK$237,641,000 were recognised in the previous years. The Directors are of the view that the carrying amounts of these amounts were not recoverable and impairment loss of approximately HK$1,254,000 was recognised for the year ended 30 June 2013. In addition, the Group recorded amounts due to the Unconsolidated Subsidiaries of approximately HK$1,309,000 at 30 June 2013.

In the opinion of the Directors, these consolidated financial statements for the year ended 30 June 2013 and 30 June 2012 are 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 and result of the Forensic Investigation. However, the de-consolidation of the Unconsolidated Subsidiaries from the beginning of the year 1 July 2011 was not in compliance with the requirements of the 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 (together, the "new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") which are effective for the Group's financial year beginning on 1 July 2012. A summary of the new and revised HKFRSs adopted by the Group is set out as follows:

Amendments to HKAS 1 *Presentation of Items of Other Comprehensive Income*

The amendments to HKAS 1 introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as a statement of profit or loss. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

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

Amendments to HKAS 1 *Presentation of Items of Other Comprehensive Income* (Continued)

In current year, the Group has applied the amendments to HKAS 1 for the first time. The presentations of items of other comprehensive income are modified accordingly.

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

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

Amendments to HKFRSs	Annual improvements to HKFRSs 2009–2011 Cycle[1]
HKAS 32 (Amendments)	Presentation — Offsetting Financial Assets and Financial Liabilities[2]
HKAS 36 (Amendments)	Recoverable Amount Disclosures for Non-Financial Assets[2]
HKAS 39 (Amendments)	Financial Instruments: Recognition and Measurement — Novation of Derivatives and Continuation of Hedge Accounting[2]
HKFRS 1 (Amendments)	Amendments to HKFRS 1 First Time Adoption of Hong Kong Financial Reporting Standards — Government Loans[1]
HKFRS 7 (Amendments)	Disclosures — Offsetting Financials Assets and Financial Liabilities[1]
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosure[3]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Involvement with Other Entities[1]
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	Investment Entities[2]
HKFRS 13	Fair Value Measurement[1]
HKAS 19 (Revised 2011)	Employee Benefits[1]
HKAS 27 (Revised 2011)	Separate Financial Statements[1]
HKAS 28 (Revised 2011)	Investment in Associates and Joint Ventures[1]
HK(IFRIC) — Int 20	Stripping costs in the Production Phase of a Surface Mine[1]
HK(IFRIC) — Int 21	Levies[2]

[1] Effective for annual periods beginning on or after 1 January 2013
[2] Effective for annual periods beginning on or after 1 January 2014
[3] Effective for annual periods beginning on or after 1 January 2015

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

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

HKFRS 9 *Financial Instruments*

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described below:

All recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that while the application of these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below:

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. HK (SIC)-Int 12 *Consolidation — Special Purpose Entities* will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

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

New and revised standards on consolidation, joint arrangements, associates and disclosures (Continued)

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures*. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK (SIC)-Int 13 *Jointly Controlled Entities — Non-monetary Contributions by Venturers* will be withdrawn upon the effective date of HKFRS 11. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate consolidation.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided all of these standards are applied at the same time. The Directors anticipate that the adoption of the revised standard did not have any impact on the financial position or performance of the Group.

HKFRS 13 *Fair Value Measurement*

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 *Financial Instruments: Disclosures* will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

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

HKFRS 13 *Fair Value Measurement* (Continued)

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The Directors anticipate that the application of the new Standard may affect certain amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

Amendments to HKFRS 7 and HKAS 32 *Offsetting Financial Assets and Financial Liabilities and the related disclosures*

The amendments to HKAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to HKFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The Directors anticipate that the application of these amendments to HKAS 32 and HKFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

Annual Improvements to HKFRSs 2009–2011 Cycle issued in June 2012

The *Annual Improvements to HKFRSs 2009–2011 Cycle* include a number of amendments to various HKFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to HKFRSs include the amendments to HKAS 16 *Property, Plant and Equipment* and the amendments to HKAS 32 *Financial Instruments: Presentation*.

Amendments to HKAS 16

The amendments to HKAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in HKAS 16 and as inventory otherwise. The Directors do not anticipate that the amendments to HKAS 16 will not have a significant effect on the Group's consolidated financial statements.

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

Annual Improvements to HKFRSs 2009–2011 Cycle issued in June 2012 (Continued)

Amendments to HKAS 32

The amendments to HKAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 *Income Taxes*. The Directors anticipate that the amendments to HKAS 32 will have no effect on the Group's consolidated financial statements as the Group has already adopted this treatment.

Amendments to HKAS 19 _Employee Benefits_

The amendments to HKAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the "corridor approach" permitted under the previous version of HKAS 19. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

The amendments to HKAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies are set out below.

(a) Basis of consolidation

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of consolidation (Continued)

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group applies 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 to the former owners of the acquiree 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. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquire on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquire is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS/HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions — that is, as transactions with the owners in their capacity as owners. The difference between fair value of 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of consolidation (Continued)

Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is 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.

Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Foreign currency transaction

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in HK dollars (HK$), which is the Company's functional and the Group's presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss and other comprehensive income, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of profit or loss and other comprehensive income within "finance cost". All other foreign exchange gains and losses are presented in the statement of profit or loss and other comprehensive income within "other income".

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in the statement of profit or loss and other comprehensive income.

(c) Property, plant and equipment

Property, plant and equipment are stated at historical cost less subsequent accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Property, plant and equipment (Continued)

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%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the statement of profit or loss and other comprehensive income.

(d) Intangible asset

Trademark

Trademark is shown at historical cost and has a finite useful life and is carried at cost less accumulated amortisation and less any identified impairment loss. Amortisation is calculated using the straight-line method to allocate the cost of trademark over its estimated useful lives of 20 years.

(e) Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments

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

Financial assets

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

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. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. Loans and receivables are measured at amortised cost using the effective interest method, less any identified impairment losses.

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.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when 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)

(f) 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) breach of contract, such as a default or delinquency in interest or principal payments; or

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

(iv) the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, 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 CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments (Continued)

Financial liabilities and equity instruments

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 accruals and other payables, other borrowing, obligation under finance leases and amount due to a former director) 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 CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments (Continued)

Financial liabilities and equity instruments *(Continued)*

Derecognition

The Group derecognises a financial asset only when the contracted rights to receive cash flows from the assets expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset in its entirety, 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.

The Group derecognise financial liabilities when, and only when, the Group's obligation are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Provision is made for inventories when they became obsolete.

(h) Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

(i) Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand and deposits held at call with banks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the company's equity share capital, the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to owners of the Company until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(k) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(l) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds and the redemption value is recognised in the statement of profit or loss over the period of the borrowings using the effective interest method.

Fee paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) 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.

(n) 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 service are provided. Payments that are related to service not yet rendered are shown as deposits from customers in the consolidated financial statements.

(o) 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 profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Taxation (Continued)

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. Deferred tax assets are generally 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 associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) 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.

(q) Retirement benefits costs

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme in Hong Kong (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss and other comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, 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.

(s) 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.

(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 a joint venture of the other entity (or an associate or a 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).

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Related parties (Continued)

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

(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.

(t) 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 consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

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

5. CRITICAL ACCOUNTING JUDGEMENTS 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 judgements, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

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

Critical judgements in applying accounting policies

The followings are the critical judgements, 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 consolidated 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 and other receivables

The policy for impairment loss recognised in respect of trade and other receivables of the Group is based on the evaluation of collectability and ageing analysis of accounts and on management's judgement. A considerable amount of judgement 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 asset

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

Net realised value of inventories

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

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$000*
Financial assets				
Loans and receivables (including bank balances and cash)	**44,122**	52,203	**68,563**	51,500
Financial liabilities				
Amortised cost	**51,462**	31,655	**49,090**	24,867

(b) Financial risk management objectives and policies

The Group's and the Company's major financial instruments include interests in subsidiaries, trade receivables, deposits and other receivables, bank balances and cash, amount due to a former director, accruals and other payables, other borrowing and obligation under finance leases. 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.

Market risk

(i) Currency risk

For the year ended 30 June 2013 and 30 June 2012, the Group and the Company mainly operates in Hong Kong and no material foreign currency risk. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

6. FINANCIAL INSTRUMENTS (Continued)

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

***Market risk** (Continued)*

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group and the Company has no significant interest bearing financial instruments except bank balances, other receivables and other borrowing. Details of the financial instruments are disclosed in respective notes. The Group and the Company 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 2013 would increase/decrease by approximately HK$Nil (2012: HK$ 96,000).

- No impact to the other component of equity for the year ended 30 June 2013 and 2012.

Credit risk

At 30 June 2013, the Group's and the Company'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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

6. FINANCIAL INSTRUMENTS (Continued)

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

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the Group's funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and other 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.

	Weighted average effective interest rate	Less than 1 year HK$'000	Between 1 and 5 years HK$'000	Over 5 years HK$'000	Total un-discounted cash flows HK$'000	Total carrying amount HK$'000
The Group						
At 30 June 2013						
Amount due to a former director	**—**	**64**	**—**	**—**	**64**	**64**
Accruals and other payables	**—**	**8,831**	**—**	**—**	**8,831**	**8,831**
Obligation under finance leases	**3.25%**	**51**	**132**	**—**	**183**	**167**
Other borrowing	**12%**	**47,488**	**—**	**—**	**47,488**	**42,400**
		56,434	**132**	**—**	**56,566**	**51,462**
At 30 June 2012						
Amount due to a former director	—	64	—	—	64	64
Accruals and other payables	—	11,451	—	—	11,451	11,451
Obligation under finance leases	1.26%	130	491	—	621	554
Other borrowing	2.62%	20,099	—	—	20,099	19,586
		31,744	491	—	32,235	31,655

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

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$'000	Total un-discounted cash flows HK$'000	Total carrying amount HK$'000
The Company						
At 30 June 2013						
Accruals and other payables	**—**	**6,626**	**—**	**—**	**6,626**	**6,626**
Other borrowing	**12%**	**47,488**	**—**	**—**	**47,488**	**42,400**
Amount due to a former director	**—**	**64**	**—**	**—**	**64**	**64**
		54,178	**—**	**—**	**54,178**	**49,090**
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 lease	1.36%	122	459	—	581	514
Other borrowing	2.62%	20,099	—	—	20,099	19,586
		24,988	459	—	25,447	24,867

(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 are recorded in the consolidated financial statements approximate to their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

6. FINANCIAL INSTRUMENTS (Continued)

(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 2013 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 2013, 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 (2012: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

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 structure, the Group may issue new shares or obtain borrowings from banks or other third parties. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 30 June 2012 and 30 June 2013.

The Group monitors capital using a gearing ratio, which is net debts divided by equity attributable to owners of the Company. The gearing ratios at the end of reporting periods were as follows:

	2013 ***HK$'000***	2012 *HK$'000*
Borrowing	**42,400**	19,586
Cash and cash equivalents (Note)	**(1,815)**	(308)
Net debt	**40,585**	19,278
Equity attributable to owners of the Company	**1,914**	25,473
Net debt to total equity ratio	**2,120.4%**	75.7%

Note:

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

8. TURNOVER

	2013 HK$'000	2012 HK$'000
Sales of beauty equipment	**1,140**	—
Sales of beauty products	**4,478**	208
Therapy services	**2,522**	494
	8,140	702

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:

(i) Sales of beauty equipment

(ii) Sales of beauty products

(iii) Therapy services

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 CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

9. SEGMENT INFORMATION (Continued)

For the year ended 30 June 2013

OPERATING SEGMENT	Sales of beauty equipment *HK$'000*	Sales of beauty products *HK$'000*	Therapy services *HK$'000*	Segment total *HK$'000*
REVENUE				
Revenue from external customers	1,140	4,478	2,522	8,140
RESULTS				
Segment profit/(loss) for reportable segment	72	(4,269)	(1,641)	(5,838)
Other income				9,121
Unallocated administrative expenses				(19,114)
Finance costs				(3,749)
Loss before tax				(19,580)
Income tax expense				—
Core loss for the year				(19,580)
MAJOR NON-CASH ITEMS				
Depreciation				(1,397)
Impairment loss recognised in respect of deposits, prepayments and other receivables				(1,254)
Written down of property, plant and equipment				(1,145)
Written off of deposits, prepayments and other receivables				(192)
				(23,568)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

9. SEGMENT INFORMATION (Continued)

For the year ended 30 June 2012

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

Revenue reported above represents revenues generated from external customers. There were no inter-segment sales during the year 2013 (during the year 2012: HK$Nil).

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

Segments profit/(loss) represents profit earned or loss incurred by each segment without allocation of corporate administration costs including directors' remunerations, other income, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

9. SEGMENT INFORMATION (Continued)

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

	Sales of beauty equipment *HK$'000*	Sales of beauty products *HK$'000*	Therapy services *HK$'000*	Segment total *HK$'000*
2013				
ASSETS				
Segment assets	**—**	**1,107**	**1,976**	**3,083**
Unallocated corporate assets				**50,748**
Consolidated total assets				**53,831**
LIABILITIES				
Segment liabilities	**—**	**—**	**(650)**	**(650)**
Unallocated corporate liabilities				**(51,267)**
Consolidated total liabilities				**(51,917)**
Other segment information:				
Additions of property, plant and equipment				**9,744**

9. SEGMENT INFORMATION (Continued)

Segment assets and liabilities (Continued)

	Sales of beauty equipment HK$'000	Sales of beauty products HK$'000	Therapy services HK$'000	Segment total HK$'000
2012				
ASSETS				
Segment assets	—	50	175	225
Unallocated corporate assets				57,454
Consolidated total assets				57,679
LIABILITIES				
Segment liabilities	(380)	—	(171)	(551)
Unallocated corporate liabilities				(31,655)
Consolidated total liabilities				(32,206)
Other segment information:				
Additions of property, plant and equipment				3,299

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	
	2013 HK$'000	2012 HK$'000	**2013 HK$'000**	2012 HK$'000
Hong Kong	**8,140**	702	**8,295**	3,156
The People's Republic of China (the "PRC")	**—**	—	**6**	—
	8,140	702	**8,301**	3,156

Information about major customer

No other single customer contributed 10% or more to the Group's revenue for the year ended 30 June 2013 (for the year ended 2012: HK$Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

10. OTHER INCOME

	2013 HK$'000	2012 HK$'000
Bank interest income	1	1
Management fee income	—	986
Other interest income	4,552	—
Gain on defaulted payment of the refundable deposit	4,500	—
Gain on disposal of property, plant and equipment	53	—
Sundry income	15	—
	9,121	987

11. FINANCE COSTS

	2013 HK$'000	2012 HK$'000
Interest on other borrowing (Note)	3,705	513
Interest on finance leases	44	7
	3,749	520

Note:

Interest on other borrowing was interest on the loan advanced by Koffman Investment Limited ("KIL") with a term of 3 months from 27 March 2012 at interest rate of 12% per annum. On 30 August 2013, the Company has entered into fifteen supplementary loan agreements with KIL to extend the repayment date of the above loan from 27 June 2012 to 31 December 2013.

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emolument paid or payable to each of the eight (2012: twelve) Directors were as follows:

	2013				2012			
	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								
Chan Choi Har Ivy[(1)]	–	–	–	–	82	—	—	82
Ji He Qun[(2)]	9	–	–	9	170	—	—	170
Wang Xiao Fei[(3)]	120	–	–	120	166	—	—	166
Wang Shang Zhong[(4)]	120	–	–	120	121	—	—	121
Lee Chan Wah[(5)]	–	600	15	615	—	—	—	—
Non-executive directors								
Cheung Tsun Hin Samson[(6)]	–	–	–	–	74	—	—	74
Chan Shun Kuen Eric[(7)]	–	–	–	–	74	—	—	74
Du Juan Hong[(8)]	120	–	–	120	39	—	—	39
Independent Non-executive directors								
Lam Wai Pong[(9)]	–	–	–	–	70	—	—	70
Chan Sze Hon[(10)]	–	–	–	–	63	—	—	63
Leung Yiu Cho[(11)]	–	–	–	–	24	—	—	24
Tam B Ray Billy[(12)]	120	–	–	120	39	—	—	39
Chu Kin Wang Peleus[(13)]	120	–	–	120	39	—	—	39
Tse Joseph[(14)]	105	–	–	105	—	—	—	—
	714	600	15	1,329	961	—	—	961

Notes:

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

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

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

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

(5) Mr. Lee Chan Wah is appointed on 16 August 2012

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

Notes: (Continued)

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

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

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

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

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

(14) Mr. Tse Joseph was appointed on 16 August 2012

During the year ended 30 June 2012, three Directors had waived emoluments of HK$1,020,000. No Directors had waived or agreed to waive any fees or emoluments during the year ended 30 June 2013. There were no amounts paid or payable to the Directors as an inducement to join or upon joining the Company and no emolument for the chief executive officer was paid.

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, one (2012: two) Director whose emolument was set out in note 12(a). The emoluments of the remaining four (2012: three) individuals for the years ended 30 June 2013 and 30 June 2012 were as follows:

	2013 ***HK$'000***	2012 *HK$'000*
Salaries and other benefits	**2,210**	555
Retirement benefit scheme contributions	**68**	13
	2,278	568

Their emoluments were within the following bands:

	Number of employees	
	2013	2012
Nil–HK$1,000,000	**4**	3

During the year ended 30 June 2013 and 2012, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

13. LOSS BEFORE TAX

	2013	2012
	HK$'000	*HK$'000*
Loss before tax has been arrived at after (charging)/ crediting:		
Directors' remuneration (note 12(a))	**(1,329)**	(961)
Other staff costs	**(9,184)**	(2,784)
Retirement benefit scheme contributions	**(341)**	(96)
Total staff costs	**(10,854)**	(3,841)
Auditors' remuneration	**(1,030)**	(1,000)
Depreciation (note 18)	**(1,571)**	(126)
Gain on de-consolidation of subsidiaries (note 31)	**—**	155,547
Loss on disposal of property, plant and equipment	**(122)**	—
Impairment loss recognised in respect of deposits, prepayments and other receivables (note 22)	**(1,254)**	(240,593)
Impairment loss recognised in respect of intangible asset (note 17)	**—**	(7,488)
Written down of property, plant and equipment (note 18)	**(1,145)**	—
Written off of deposits, prepayments and other receivables	**(192)**	—
Operating lease payments	**(4,131)**	(572)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

14. INCOME TAX EXPENSE

Hong Kong Profits Tax is calculated at 16.5% (2012: 16.5%) of the estimated assessable profits for both years. The PRC subsidiary is subject to the PRC Enterprise Income Tax at 25% for the year. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

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

	2013	2012
	HK$'000	*HK$'000*
Loss before tax	**(23,568)**	(100,389)
Tax at the Hong Kong Profits Tax rate of 16.5% (2012: 16.5%)	**(3,889)**	(16,564)
Tax effect of non-deductible expenses	**463**	40,939
Tax effect of non-taxable revenues	**(9)**	(25,672)
Tax effect on temporary differences arising from accelerated depreciation allowance not recognised	**(380)**	(217)
Tax effect of tax loss not recognised	**3,819**	1,514
Effect of different tax rate of subsidiary operating in other jurisdiction	**(4)**	—
Tax charge for the year	**—**	—

At the end of the reporting period, the Group has unused estimated tax losses of approximately HK$58,798,000 (At 30 June 2012: approximately HK$36,618,000) 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 CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

15. DIVIDENDS

The Directors do not recommend any payment of dividends for the year ended 30 June 2013 and 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:

	2013	2012
	HK$'000	*HK$'000*
Loss for the purpose of basic and diluted loss per share:		
Loss for the year attributable to owners of the Company	**(23,568)**	(100,389)
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**1,312,200,000**	1,301,680,874

Diluted loss per share for the year ended 30 June 2013 and 2012 were the same as the basic loss per share as there was no diluting event for both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

17. INTANGIBLE ASSET

The Group

	Total
	HK$'000
Trademark	
Cost	
At 1 July 2011, 30 June 2012, 1 July 2012 and 30 June 2013	18,720
Accumulated amortisation and impairment	
At 1 July 2011	11,232
Impairment loss recognised	7,488
At 30 June 2012, 1 July 2012 and 30 June 2013	18,720
Carrying amounts	
At 30 June 2013	—
At 30 June 2012	—

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 7 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 at 30 June 2012 and 30 June 2013. The recoverable amount of the trademark is determined based on value-in-use calculation of the cash flow projections on the financial estimation. At 30 June 2012 and 30 June 2013, the Directors are in the opinion that there will be no material future cash inflow contributed to the Group of the trademark "Blu Spa". As such, an impairment loss of approximately HK$7,488,000 was recognised in the consolidated statement of profit or loss and comprehensive income for the year ended 30 June 2012. No reversal of impairment loss of intangible asset was recognised for the year ended 30 June 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

18. PROPERTY, PLANT AND EQUIPMENT

The Group	Plant and machinery *HK$'000*	Leasehold improvement *HK$'000*	Furniture, fixture and equipment *HK$'000*	Motor vehicle *HK$'000*	Total *HK$'000*
Cost					
At 1 July 2011	710	2,239	876	246	4,071
De-consolidation of the Unconsolidated Subsidiaries (note 31)	(710)	(2,239)	(876)	(246)	(4,071)
Additions	530	1,263	895	611	3,299
Disposals	—	—	(17)	—	(17)
At 30 June 2012 and 1 July 2012	530	1,263	878	611	3,282
Additions	1,670	6,562	1,352	160	9,744
Disposals	(1,239)	—	(326)	(611)	(2,176)
Written off	—	(1,361)	(100)	—	(1,461)
At 30 June 2013	961	6,464	1,804	160	9,389
Accumulated depreciation and impairment					
At 1 July 2011	429	749	620	135	1,933
De-consolidation of the Unconsolidated Subsidiaries (note 31)	(429)	(749)	(620)	(135)	(1,933)
Charge for the year	14	42	29	41	126
At 30 June 2012 and 1 July 2012	14	42	29	41	126
Charge for the year	173	921	339	138	1,571
Written back on disposals	(91)	—	(39)	(163)	(293)
Written off	—	(290)	(26)	—	(316)
At 30 June 2013	96	673	303	16	1,088
Carrying amounts					
At 30 June 2013	**865**	**5,791**	**1,501**	**144**	**8,301**
At 30 June 2012	516	1,221	849	570	3,156

Included in the carrying amounts of furniture, fixture and equipment and motor vehicle of approximately HK$32,000 (At 30 June 2012: approximately HK$40,000) and approximately HK$144,000 (At 30 June 2012: approximately HK$570,000) respectively are held under finance leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

18. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Company	Leasehold improvement	Furniture, fixture and equipment	Motor vehicle	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost				
At 1 July 2011	—	—	—	—
Additions	1,255	33	611	1,899
At 30 June 2012 and 1 July 2012	1,255	33	611	1,899
Additions	98	10	—	108
Disposal	—	—	(611)	(611)
Written off	(1,353)	(33)	—	(1,386)
At 30 June 2013	—	10	—	10
Accumulated depreciation and impairment				
At 1 July 2011	—	—	—	—
Charge for the year	42	1	41	84
At 30 June 2012 and 1 July 2012	42	1	41	84
Charge for the year	246	7	122	375
Written back on disposals	—	—	(163)	(163)
Written off	(288)	(7)	—	(295)
At 30 June 2013	—	1	—	1
Carrying amounts				
At 30 June 2013	—	9	—	9
At 30 June 2012	1,213	32	570	1,815

There is no carrying amount of motor vehicle held under finance lease (At 30 June 2012: approximately HK$570,000).

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 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 and 1 July 2012	483	(480)	3,611	(57)	3,557
Advance to subsidiaries	—	—	24,623	—	24,623
At 30 June 2013	**483**	**(480)**	**28,234**	**(57)**	**28,180**

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 financial position 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 2013 are set out in note 36.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

20. INVENTORIES

The Group	2013 HK$'000	2012 HK$'000
Raw materials	—	33
Finished goods	1,137	1,910
	1,137	1,943

Movements in written down of inventories:

The Group	2013 HK$'000	2012 HK$'000
Balance at beginning of the year	—	(449)
De-consolidation of the Unconsolidated Subsidiaries	—	449
Balance at end of the year	—	—

The cost of inventories recognised as expenses and included in "cost of sales" amounted to approximately HK$3,021,000 for the year ended 30 June 2013 (for the year ended 30 June 2012: approximately HK$98,000).

21. TRADE RECEIVABLES

The Group	2013 HK$'000	2012 HK$'000
Trade receivables	646	225

The Group assesses the credit status and imposes credit limits for the customers in accordance with the Group's credit policy. The credit limits are closely monitored and subject to periodic reviews.

21. TRADE RECEIVABLES (Continued)

The Group allows credit period ranging from 0 days to 120 days to its customers. Details of the ageing analysis of trade receivables that are not considered to be impaired and based on the invoice date as follows:

The Group	**2013**	2012
	HK$'000	*HK$'000*
Aged:		
0–30 days	**183**	220
31–60 days	**82**	5
61–90 days	**99**	—
91–120 days	**190**	—
Over 120 days	**92**	—
	646	225

Trade receivables disclosed above include amounted approximately HK$92,000 which are past due at the end of the reporting period for which the Group has not recognised an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable.

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

The Group	**2013**	2012
	HK$'000	*HK$'000*
Balance at beginning of the year	**–**	117,684
De-consolidation of the Unconsolidated Subsidiaries (Note)	**–**	(117,684)
Balance at end of the year	**–**	—

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 the Unconsolidated Subsidiaries have not been included into the consolidated financial statements of the Group since 1 July 2011. Accordingly, trade receivables of the Unconsolidated Subsidiaries of approximately HK$120,842,000 and corresponding impairment loss of approximately HK$117,684,000 was not included in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

22. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK'000***	*HK'000*
Deposits paid (Note a)	**3,930**	6,311	**2,500**	2,657
Less: Impairment loss recognised	**—**	(2,500)	**—**	(2,500)
Less: Written off as uncollectible	**(2,500)**	—	**(2,500)**	—
	1,430	3,811	**—**	157
Prepayments (Note b)	**271**	377	**231**	2
Other receivables (Note c)	**45,231**	5,149	**45,207**	5,000
Less: Impairment loss recognised	**—**	(5,000)	**—**	(5,000)
Less: Written off as uncollectible	**(5,000)**	—	**(5,000)**	—
	40,231	149	**40,207**	—
Amounts due from the Unconsolidated Subsidiaries (Note d)	**241,847**	288,303	**238,883**	285,268
Less: Impairment loss recognised	**(241,346)**	(240,593)	**(238,382)**	(237,641)
Less: Written off as uncollectible	**(501)**	—	**(501)**	—
	—	47,710	**—**	47,627
	41,932	52,047	**40,438**	47,786

Notes:

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

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Balance at beginning of the year	**2,500**	32,500	**2,500**	2,500
De-consolidation of the Unconsolidated Subsidiaries	**—**	(30,000)	**—**	—
Less: Written off as uncollectible	**(2,500)**	—	**(2,500)**	—
Balance at end of the year	**—**	2,500	**—**	2,500

Included in the deposits paid were the rental deposits amounted to approximately HK$944,000 and the deposit of a new point-of-sales system amounted to approximately HK$261,000.

22. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(a) (Continued)

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 the Unconsolidated Subsidiaries approximately HK$76,210,000 and corresponding impairment loss of approximately HK$30,000,000 were not included in the consolidated financial statements.

(b) The movements in the impairment losses of prepayments during the year are set out below:

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Balance at beginning of the year	–	14,500	–	—
De-consolidation of the Unconsolidated Subsidiaries	–	(14,500)	–	—
Balance at end of the year	–	—	–	—

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.

(c) As set out in the Company's announcement dated 30 April 2010, BSHK entered into the sale and purchase agreement dated 30 April 2010 with Mr. Shum Yeung (the "Debtor") pursuant to which BSHK agreed to purchase 70% of entire issued share capital of an entity and its loan at a consideration of HK$80,000,000 (the "SPA"). According to the SPA, a refundable deposit amounted to HK$45,000,000 was paid by BSHK on 12 February 2010 and 30 April 2010 of HK$10,000,000 and HK$35,000,000 respectively.

As set out in the Company's announcements dated 25 August 2010, 29 October 2010, 1 February 2011, 30 June 2011 and 30 November 2011, BSHK and the Debtor entered into several extension agreements and supplemental agreement on 25 August 2010, 29 October 2010, 1 February 2011, 30 June 2011 and 30 November 2011 respectively for extension of the SPA.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

22. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(c) (Continued)

As set out in the Company's announcements dated 30 March 2012 and 5 April 2012, BSHK and the Debtor entered into the deed of termination (the "DOT") dated 5 April 2012 pursuant to which with immediate effect the SPA became null and void. Simultaneously, the Debtor is liable to repay BSHK the full amount of the refundable deposit of HK$45,000,000 (the "Refundable Deposit"). Pursuant to the DOT, the Debtor should also pay a consideration of HK$4,500,000 to BSHK for termination of the SPA and provided that, if the Debtor duly repaid the total sum of the Refundable Deposit, the consideration of HK$4,500,000 should be released and the Debtor's obligation to pay HK$4,500,000 under the DOT should be discharged.

As set out in the Company's announcements dated 4 July 2012, 24 July 2012, 3 August 2012 and 21 August 2012 , the Debtor and BSHK entered into several extension agreements on 4 July 2012, 24 July 2012, 3 August 2012 and 21 August 2012 respectively for extension of the repayment of the Refundable Deposit (together, the "Repayment Extension Agreements").

As set out in the Company's announcement dated 28 September 2012, a writ of summons was issued in the High Court of Hong Kong by BSHK, as the plaintiff claiming against the Debtor for, (i) the repayment of an outstanding sum due and owing from the Debtor under the DOT and Repayment Extension Agreements and (ii) the breach of the DOT and the Repayment Extension Agreements on 25 September 2012.

As set out in the Company's announcement dated 1 November 2012, BSHK and the Debtor entered into the first deed of settlement for the purpose of settling the abovementioned claims. The amount of HK$4,050,000 was repaid by the Debtor on 13 November 2012.

As set out in the Company's announcement dated 29 January 2013, BSHK and the Company entered into the deed of assignment (the "DOA") dated 29 January 2013 pursuant to which BSHK assigns, sells, transfers and sets over to the Company, all its rights, title and interest in and obligation to the Refundable Deposit and the DOT and the Repayment Extension Agreements. As a result, the amounts due from the Unconsolidated Subsidiaries amounted to approximately HK$40,950,000 was reclassified to other receivable due from the Debtor (the "Other Receivable"). On 29 January 2013, the Company, BSHK and the Debtor entered into a second deed of settlement (the "Second DOS") dated 29 January 2013 for the purpose of settling the abovementioned claims and the Debtor further settled of approximately HK$1,823,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

22. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(c) (Continued)

As set out in the Company's announcement dated 3 May 2013, on 29 April 2013, the Company and the Debtor have agreed to extent the settlement of the Other Receivable with interest of 30%. As the Debtor defaulted to make settlement according to the Second DOS, the Directors consider the Debtor breached the terms of the DOT and recognised the consideration for termination of the SPA of HK$4,500,000 as the gain on defaulted payment of the Refundable Deposit in the consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2013. During the year, the interest income in respect of the Other Receivable amounted to approximately HK$4,552,000 of which approximately HK$3,472,000 was settled.

Subsequent to the end of the reporting period, the Company filed the DOA and corresponding documents to the High Court of Hong Kong for claims against the Debtor. On 6 September 2013, the Directors were given to understand by its legal representatives that the judge has entered judgement against the Debtor in the following terms: 1) judgement against the Debtor be entered for the sum of HK$39,127,500 together with contractual interest thereon calculated from day to day at the rate of 30% per annum from 1 May 2013 to 6 September 2013, and thereafter at judgement rate pursuant to s. 48 of High Court Ordinance until payment; and 2) the Debtor shall pay the Company the costs of this action including the costs of the Company's application for summary judgement to be taxed if not agreed.

Furthermore, as set out in the Company's announcement dated 3 May 2013, the Company and Dutfield International Group Company Limited ("Dutfield") has entered into the deed of guarantee (the "DOG") pursuant to which Dutfield has agreed to provide guarantee to the Company for repayment of the Other Receivable. Pursuant to the DOG, Dutfield has agreed to undertake the liabilities and becomes due and payable to the Company when the Debtor defaulted to repay the Other Receivable. The Directors were given to understand that Dutfield is also a plaintiff in the legal proceedings for a claim for the sum of HK$141,360,000 under a loan agreement in regarding to a mortgaged property. The Company, the Debtor and Dutfield have agreed that any proceeds received by Dutfield the abovementioned proceedings shall be paid to the Company immediately for settling the Other Receivable. Up to the date of this report, the legal proceeding is still in progress and pending for judgement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

22. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(c) (Continued)

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

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK'000*
Balance at beginning of the year	**5,000**	5,135	**5,000**	5,000
De-consolidation of the Unconsolidated Subsidiaries	**—**	(135)	**—**	—
Less: Written off as uncollectible	**(5,000)**	—	**(5,000)**	—
Balance at end of the year	**—**	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$241,847,000 (At 30 June 2012: approximately HK$288,303,000) and accumulated impairment loss of approximately HK$241,346,000 (At 30 June 2012: approximately HK$240,593,000) of which approximately HK$1,254,000 (for the year ended 2012: approximately HK$74,296,000) was recognised in the consolidated statement of profit or loss and other 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 amounts due from the Unconsolidated Subsidiaries were reclassified from intercompany balances to the amounts due from the Unconsolidated Subsidiaries in the consolidated financial statements and abovementioned impairment loss was recognised. 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$238,883,000 (At 30 June 2012: approximately HK$285,268,000) and accumulated impairment losses of approximately HK$238,382,000 (At 30 June 2012: approximately HK$237,641,000) of which approximately HK$1,242,000 (for the year ended 2012: approximately HK$74,291,000) was recognised in the statement of profit or loss and other 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 amounts due from the Unconsolidated Subsidiaries were reclassified from interests in subsidiaries to the amounts due from the Unconsolidated Subsidiaries in the financial statements and abovementioned impairment loss was recognised. The amounts due from the Unconsolidated Subsidiaries are non-interest bearing, unsecured and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

22. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(d) (Continued)

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

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK'000*
Balance at beginning of the year	**240,593**	—	**237,641**	—
Reclassification upon de-consolidation of the Unconsolidated Subsidiaries	**—**	—	**—**	163,350
Impairment loss recognised	**1,254**	240,593	**1,242**	74,291
Written off as uncollectible	**(501)**	—	**(501)**	—
Balance at end of the year	**241,346**	240,593	**238,382**	237,641

23. BANK BALANCES AND CASH

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash at bank and on hand	**1,314**	308	**179**	162
Short-term bank deposits	**501**	—	**—**	—
	1,815	308	**179**	162

At the end of reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$309,000 (At 30 June 2012: HK$Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

23. BANK BALANCES AND CASH (Continued)

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

24. AMOUNT DUE TO A FORMER DIRECTOR

The Group and the Company

At 30 June 2013, the amount due to Ms. Chan Choi Har Ivy amounted to approximately HK$64,000 (At 30 June 2012: approximately HK$64,000) of the Group and the Company.

The amount due to a former director is non-interest bearing, unsecured and repayable on demand.

Ms. Chan Choi Har Ivy resigned as an executive director of the Company on 7 March 2012.

25. DEPOSITS FROM CUSTOMERS

The Group	**2013** ***HK$'000***	2012 *HK$'000*
Deposits from customers	**455**	551

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

26. ACCRUALS AND OTHER PAYABLES

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Accruals	**4,321**	2,849	**3,672**	2,816
Other payables	**3,201**	2,356	**2,954**	1,887
Amounts due to the Unconsolidated Subsidiaries (Note)	**1,309**	6,246	**—**	—
	8,831	11,451	**6,626**	4,703

Note:

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

27. OBLIGATION UNDER FINANCE LEASES

The Group

At 30 June 2013, the Group leased a motor vehicle and a digital photocopier under finance leases. The lease term is 4 years (2012: 5 years) with a fixed interest rate of 3.25% per annum (2012: 2.75% per annum) for the motor vehicle.

	Minimum lease payments		Present value of minimum lease payments	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable under finance leases:				
Within one year	**51**	130	**43**	105
More than one year and not more than five years	**132**	491	**124**	449
	183	621	**167**	554
Less: future finance charges	**(16)**	(67)	**—**	—
	167	554	**167**	554
Less: Amounts due for settlement within 12 months (shown under current liabilities)			**(43)**	(105)
Amounts due for settlement after 12 months			**124**	449

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

27. OBLIGATION UNDER FINANCE LEASES (Continued)

The Company

During the year end 2013, the Company has leased a motor vehicle under finance lease. The lease term is 4 years (2012: 5 years) with a fixed interest rate of 2.75% per annum. The motor vehicle has been disposed at the end of the reporting period.

	Minimum lease payments		Present value of minimum lease payments	
	2013	2012	**2013**	2012
	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 leases are secured by the lessor's charge over the leased assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

28. OTHER BORROWING

The Group and the Company

	2013	2012
	HK$'000	*HK$'000*
Balance at beginning of the year	**19,586**	—
Proceeds from borrowing	**24,905**	19,268
Loan interest for the year	**3,705**	513
Repayments of interest and borrowing	**(5,796)**	(195)
Balance at end of the year	**42,400**	19,586

Included in other borrowing of approximately HK$42,400,000 (at 30 June 2012: approximately HK$19,586,000) was a loan advanced by KIL, of which Mr. Yu Zhen Hua Johnny ("Mr. Yu"), an executive director and the chairman of the Company, is the ultimate beneficial owner. On 26 June 2012, the Company has entered into an extension loan agreement with KIL, pursuant to which, KIL agreed to make available to the Company a loan facility up to HK$50,000,000 for a term of 3 months from 27 June 2012 at interest rate of 12% per annum. There is no security over the assets of the Group in respect of this loan.

On 30 August 2013, the Company has entered into fifteen supplementary loan agreements with KIL to extend the repayment date of the above loan from 27 June 2012 to 31 December 2013 and the amount is classified as current liabilities in the consolidated statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

29. SHARE CAPITAL

The Group and the Company	Number of shares	Amount
		HK$'000
Authorised:		
At 1 July 2011, 30 June 2012, 1 July 2012 and 30 June 2013	5,000,000,000	500,000
Issued and fully paid:		
At 1 July 2011	1,202,200,000	120,220
Issue of new shares pursuant to a placing agreement dated 27 July 2011 (Note)	110,000,000	11,000
At 30 June 2012, 1 July 2012 and 30 June 2013	1,312,200,000	131,220

Note:

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

30. RESERVES

The Company	Share premium	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000
At 1 July 2011	170,269	(197,533)	(27,264)
Shares issued pursuant to the placing agreement dated 27 July 2011	5,500	—	5,500
Transactions cost attributable to issue of new shares	(412)	—	(412)
Loss for the year	—	(80,591)	(80,591)
At 30 June 2012 and 1 July 2012	175,357	(278,124)	(102,767)
Loss for the year	—	(8,737)	(8,737)
At 30 June 2013	**175,357**	**(286,861)**	**(111,504)**

Movements in reserves of the Group during the year are set out in consolidated statement of changes in equity on page 50 to the consolidated financial statements.

31. 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 at 1 July 2011 of approximately HK$155,547,000, have been recognised in the consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2012.

Details of the net assets/(liabilities) of the Unconsolidated Subsidiaries 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 CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

31. 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 of subsidiaries	72
Total consideration	—
Net cash outflow arising on de-consolidation:	
Bank balances and cash de-consolidated of	—

31. 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	—

32. 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 MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, with the employers' contributions subject to a cap monthly relevant income of HK$20,000 up to 31 May 2012 and changed to HK$25,000 from 1 June 2012.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

33. OPERATING LEASE COMMITMENTS

The Group	2013 HK$'000	2012 HK$'000
Within one year	3,345	3,816
In the second to fifth year inclusive	760	3,594
	4,105	7,410

Operating lease payments represent rentals payable by the Group for certain of its office premise and retail shops. Leases are negotiated for an average terms of 2 to 3 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 comment.

34. 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 the Unconsolidated Subsidiaries (note 26) and elsewhere to the consolidated financial statements, the Group had the following material transactions with related parties during the year:

Name of parties	Nature of transactions	2013 HK$'000	2012 HK$'000
KIL (Note 1)	Interest on other borrowing	3,705	513
Koffman Corporate Service Limited ("KCSL") (Note 1)	Rental expenses	160	—
BSHK (Note 2)	Purchases of products	–	1,984
	Sales of products	(21)	—
	Rendering of management services	–	(986)
	Purchases of property, plant and equipment	–	716
	Disposal of property, plant and equipment	(603)	—
Lisun Plastic Factory Limited (Note 3)	Gain on disposal of property, plant and equipment	(53)	—

34. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

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

Name of parties	Nature of transactions	2013 HK$'000	2012 HK$'000
KIL (Note 1)	Other borrowing	**(42,400)**	(19,586)

Notes:

(1) Mr. Yu, an executive director and the chairman of the Company, is the ultimate beneficial owner of KIL and KCSL. Details of the transactions were set out in note 28 to the consolidated financial statements. During the year, the KCSL's office is rented by the Company.

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

(3) Mr. Wong Yue Kwan Alan is the common director of Lisun Plastic Factory Limited and Blu Spa Group Limited, a wholly-owned subsidiary of the Group. He has resigned on 7 August 2013.

Compensation for key management personnel

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

The Group

	2013 HK$'000	2012 HK$'000
Short-term employee benefits	**1,314**	1,203
Post-employment benefits	**15**	5
	1,329	1,208

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 CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

35. EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in elsewhere of the consolidated financial statements, the Group has the following events after the reporting period:

(a) Change of domicile

The Directors proposed to change the domicile of the Company from the Cayman Islands to Bermuda by way of de-registration in the Cayman Islands and continuation as an exempted company under the laws of Bermuda and to adopt a new memorandum of continuance and Bye-laws in compliance with Bermuda laws to replace the existing memorandum and articles of association of the Company (the "Change of Domicile"). Details of the change of domicile and adoption of new memorandum and of continuance and bye-laws were set out in the circular dated 24 January 2013. The proposal was approved at the extraordinary general meeting on 28 February 2013. At the date of this report, the Change of Domicile has not yet been completed. Details were set out in the Company's announcements dated 20 December 2012, 7 January 2013, 17 April 2013 and 5 August 2013.

(b) Capital reorganisation

After the Change of Domicile, the Directors proposed to reorganise the capital of the Company, which involves the capital reduction and the capital consolidation (the "Capital Reorganisation"). Details of the Capital Reorganisation were set out in the circular dated 24 January 2013. The Capital Reorganisation was approved at the extraordinary general meeting on 28 February 2013. At the date of this report, the Capital Reorganisation has not yet been completed. Details were set out in the Company's announcements dated 20 December 2012, 7 January 2013, 17 April 2013 and 5 August 2013.

(c) Loan from KIL

On 30 August 2013, the Company has entered into the fifteenth extension agreement with KIL to further extend the repayment date of the loan from 31 August 2013 to 31 December 2013, a loan in the principle sum of HK$50,000,000 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 carrying amount of loan borrowed from KIL by the Company was approximately HK$46,830,000. Details of the agreement of this loan were set out in the Company's announcements dated 2 April 2012, 7 May 2012, 26 June 2012, 26 September 2012, 26 October 2012, 26 November 2012, 7 December 2012, 31 December 2012, 15 January 2013, 31 January 2013, 28 February 2013, 2 April 2013, 30 April 2013, 31 May 2013, 28 June 2013, 31 July 2013 and 30 August 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

35. EVENTS AFTER THE REPORTING PERIOD (Continued)

Save as disclosed in elsewhere of the consolidated financial statements, the Group has the following events after the reporting period: (Continued)

(d) Exclusive distributorship for Evidens De Beauté Products in Macau

On 8 August 2013, EDS (Asia) Limited, a wholly-owned subsidiary of the Company, entered into a supply agreement (the "Macau Agreement") with a member of a pharmaceutical group (the "Macau Retailer"). Pursuant to the Macau Agreement, EDS (Asia) Limited has agreed to appoint the Macau Retailer as its sole and exclusive retail agent in Macau Special Administrative Region of the PRC ("Macau") and supply the "Evidens de Beauté" products to the Macau Retailer for retail sales initially in four of its associated pharmaceutical stores in Macau up until 30 June 2015 which shall be renewed thereafter for a further term of 2 years if agreed by the parties to the Macau Agreement. Details were set out in the Company's announcement dated 30 August 2013.

(e) Acquisition of new business

On 30 August 2013, EDS International Holdings Limited ("EDS International"), a wholly-owned subsidiary of the Company, and two independent third parties (the "Vendors") entered into a legal binding term sheet, pursuant to which EDS International agreed to acquire and the Vendors agreed to sell 51% issued share capital of a company (the "Target Company") and the obligations, liabilities and debts owing by or due from the Target Company to the Vendors at the completion date. The Target Company principally engages in beauty and wellness services in Hong Kong. A formal sale and purchase agreement is expected to be finalised on or before 30 September 2013. At the date of this report, the Company is in the process of preparing an announcement in relation to the proposed acquisition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

36. SUBSIDIARIES

Particulars of the Company's subsidiaries at 30 June 2013 are as follows:

Name of subsidiaries	Place of incorporation/ operation	Issued and paid up share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
Beachgold Assets Limited	British Virgin Islands/ Hong Kong	US$2	—	100	Inactive
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	Inactive
EDS International Holdings Limited (formerly known as Blu Spa Asia Limited)	British Virgin Islands/ Hong Kong	US$1	100	—	Investment holding and holding of patent and trademarks/tradenames
EDS (China) Limited (formerly known as Blu Spa (Shenzhen) Limited)	Hong Kong	HK$1	—	100	Investment holding
EDS (Taiwan) Limited	Hong Kong	HK$1	—	100	Inactive
EDS (Asia) Limited (formerly known as Blu Spa (Asia) Limited)	Hong Kong	HK$1	—	100	Marketing development, product distribution and customer support services
EDS Distribution Limited	Hong Kong	HK$1	—	100	Marketing development, product distribution and customer support services
西安伊菲丹化妝品銷售有限公司@	The PRC	HK$500,000	—	100	Beauty operations

@ Wholly-owned foreign enterprise

37. AUTHORISATION FOR ISSUE OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 6 September 2013.

FINANCIAL SUMMARY

	FOR THE YEAR ENDED				
	2009	2010	2011	2012	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Results					
Turnover	49,294	99,662	53,400	702	**8,140**
Profit/(loss) from ordinary activities attributable to shareholders	11,414	27,113	(185,680)	(100,389)	**(23,568)**

Assets and liabilities

	AT 30 JUNE				
	2009	2010	2011	2012	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Total assets	88,972	278,156	134,210	57,679	**53,831**
Total liabilities	(6,845)	(90,291)	(24,440)	(32,206)	**(51,917)**
Balance of shareholders' funds	82,127	187,865	109,770	25,473	**1,914**