THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or the Whitewash Waiver or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in EDS Wellness Holdings Limited (the "**Company**"), you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer or registered institution in securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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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)

(I) SUBSCRIPTION FOR CONVERTIBLE BONDS; (II) APPLICATION FOR WHITEWASH WAIVER; (III) THE LOAN AGREEMENT; AND (IV) NOTICE OF EXTRAORDINARY GENERAL MEETING

Independent Financial Adviser to the Independent Board Committee and Independent Shareholders

NEW SPRING CAPITAL LIMITED

A notice convening the extraordinary general meeting of the Company to be held at 3/F, Woo Sing Kee Industrial Building, 138 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong on Tuesday, 11 June 2013 at 11:30 a.m. is set out on pages 210 to 212 of this circular. A form of proxy for use at the extraordinary general meeting is enclosed with this circular.

Whether or not you are able to attend the extraordinary general meeting, you are requested to complete the accompanying form of proxy, in accordance with the instructions printed thereon and deposit the same at the Hong Kong branch share registrar of the Company, Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the extraordinary general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the extraordinary general meeting or any adjournment thereof should you so wish and in such event, the proxy shall be deemed to be revoked.

* *For identification purpose only*

23 May 2013

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

"acting in concert"	has the meaning ascribed thereto in the Takeovers Code
"Announcement"	the announcement of the Company dated 21 March 2013 in relation to, among other matters, the Subscription, the Whitewash Waiver and the Loan Agreement
"associates"	has the meaning ascribed thereto in the Takeovers Code
"Board"	the board of Directors from time to time
"Business Day"	a day (excluding Saturday, Sunday, public holiday and any day on which a tropical cyclone warning no. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 5:00 p.m. and is not lowered at or before 5:00 p.m. or on which a "black" rainstorm warning is hoisted or remains in effect between 9:00 a.m. and 5:00 p.m. and is not discontinued at or before 5:00 p.m.) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
"CAGR"	compound annual growth rate
"Capital Consolidation"	the proposed consolidation of every one hundred issued Shares of HK$0.001 each in the share capital of the Company upon the Capital Reduction taking effect into one issued New Share of HK$0.10
"Capital Reduction"	the proposed reduction of capital of the Company by way of cancellation of the paid-up share capital to the extent of HK$0.099 on each existing issued Share, such that the par value of all of the issued Shares shall be reduced from HK$0.10 each to HK$0.001
"Capital Reorganisation"	the capital reorganisation of the Company involving the Capital Reduction and the Capital Consolidation as disclosed in the circular of the Company dated 24 January 2013
"Company"	EDS Wellness Holdings Limited (formerly known as China AU Group Holdings Limited), a company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on the GEM board of the Stock Exchange
"Completion"	completion of the Subscription in accordance with the terms and conditions of the Subscription Agreement

"connected person(s)"	has the meaning ascribed to this term under the GEM Listing Rules
"Conversion Price"	the initial conversion price of HK$1.00 (subject to adjustment) per Conversion Share upon conversion of the Convertible Bonds
"Conversion Shares"	the New Shares which may fall to be allotted and issued upon exercise of the conversion rights attaching to the Convertible Bonds
"Convertible Bonds"	the zero coupon convertible bonds in principal amount of HK$40,000,000 to be issued by the Company to the Subscriber pursuant to the Subscription Agreement
"Director(s)"	the directors of the Company from time to time
"EGM"	the extraordinary general meeting of the Company to be convened and held on Tuesday, 11 June 2013 to consider and, if thought fit, to approve the resolutions set out in the notice of EGM in this circular
"Executive"	the Executive Director of the Corporate Finance Division of the SFC from time to time and any delegate of such executive director
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Committee"	the GEM listing committee of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on the GEM
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Independent Board Committee"	an independent board committee, comprising all the non-executive Directors, formed to advise the Independent Shareholders as to the fairness and reasonableness of the Subscription Agreement and the transaction contemplated thereunder; the Whitewash Waiver; and the Loan Agreement and the transaction contemplated thereunder and as to voting at the EGM

"Independent Shareholders"	Shareholders other than the Subscriber, the Subscriber Holding, the Lender and the parties acting in concert with any of them and other Shareholders who are interested or involved in the Subscription and the transaction contemplated thereunder, the Whitewash Waiver and the Loan Agreement
"Koffman"	Koffman Investment Limited, a company incorporated in Hong Kong with limited liability which is owned as to 50% by Mr. Yu Shu Kuen, the chairman and an executive Director
"Latest Practicable Date"	21 May 2013, being the latest practicable date for the purpose of ascertaining certain information contained in this circular
"Lender"	Hong Kong Builders Finance Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly owned subsidiary of the Subscriber Holding
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Loan Agreement"	the loan agreement dated 21 March 2013 entered into between the Lender and the Company as borrower in respect of an unsecured loan in the principal amount of HK$40,000,000
"Money Lenders Ordinance"	the Money Lenders Ordinance (Chapter 163 of the laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Mr. Yu"	Mr. Yu Shu Kuen, the chairman of the Board and an executive Director
"New Share(s)"	share(s) of HK$0.10 each in the share capital of the Company upon the Capital Reorganisation becoming effective
"New Spring Capital" or "Independent Financial Adviser"	New Spring Capital Limited, a licenced corporation permitted to carry out type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Subscription Agreement and the transaction contemplated thereunder, the Whitewash Waiver and the Loan Agreement and the transaction contemplated thereunder are fair and reasonable and to advise the Independent Shareholders as to how to vote at the EGM
"Relevant Period"	the period commencing six months prior to the date of the Announcement up to and including the Latest Practicable Date

"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong)
"Share(s)"	ordinary share(s) of par value of HK$0.1 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s) from time to time
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscriber"	New Cove Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of the Subscriber Holding
"Subscriber Holding"	Eternity Investment Limited (Stock code: 764), an exempted company incorporated in Bermuda with limited liability and the issued shares of which are listed on the main board of the Stock Exchange
"Subscription"	the subscription for the Convertible Bonds by the Subscriber subject to the terms and conditions of the Subscription Agreement
"Subscription Agreement"	the subscription agreement dated 21 March 2013 and entered into between the Company and the Subscriber in relation to the Subscription.
"Takeovers Code"	The Hong Kong Code on Takeovers and Mergers
"Whitewash Waiver"	a waiver as may be granted by the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code in respect of the obligations of the Subscriber to extend a general offer to acquire the issued Shares (excluding the issued Shares which are owned or agreed to be acquired by the Subscriber and parties acting in concert with it) in accordance with the Takeovers Code
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"%"	per cent.

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)

Executive Directors:
Mr. Yu Shu Kuen *(Chairman)*
Mr. Wang Xiaofei
(Mr. Lee Chan Wah as 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

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

23 May 2013

To the Shareholders

Dear Sir or Madam,

(I) SUBSCRIPTION FOR CONVERTIBLE BONDS; (II) APPLICATION FOR WHITEWASH WAIVER; (III) THE LOAN AGREEMENT; AND (IV) NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the Announcement of the Company dated 21 March 2013 in relation to, among other matters, the Subscription, the Whitewash Waiver and the Loan Agreement.

The purpose of this circular is to provide you with further details regarding the Subscription, the Whitewash Waiver, the Loan Agreement, including amongst others (i) a letter from the Independent Board Committee to the Independent Shareholders setting out

* *For identification purpose only*

their advice in relation to the Subscription and the transactions contemplated thereunder, the Whitewash Waiver and the Loan Agreement and the transactions contemplated thereunder; (ii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Subscription and the transactions contemplated thereunder, the Whitewash Waiver and the Loan Agreement and the transactions contemplated thereunder, together with (iii) a notice convening the EGM.

THE SUBSCRIPTION AGREEMENT

Parties and Date

Date:	21 March 2013 (after trading hours)
Issuer:	the Company
Subscriber:	New Cove Limited

The Company had rented portion of the Ninth Floor and Car Parking Spaces Nos. 14 and 21 of Lucky (Kwun Tong) Industrial Building, Nos. 398-402 Kwun Tong Road, Kowloon, Hong Kong from Rexdale Investment Limited, an indirect wholly-owned subsidiary of the Subscriber Holding for a monthly rent of HK$52,700 for a term commencing from 7 March 2012 and ending on 6 March 2015. The tenancy agreement of such premises was initially proposed to be terminated on 1 April 2013. As additional time is required for the renovation of the new office of the Company, the Company and Rexdale Investment Limited have agreed to postpone the termination of the tenancy agreement to 1 June 2013.

The Subscriber, the Subscriber Holding and parties acting in concert with any of them, are third parties independent of the Company and its connected persons. Save as disclosed in the preceding paragraph, prior to the entering into of the Subscription Agreement and the Loan Agreement, neither the Subscriber, the Subscriber Holding nor parties acting in concert with any of them has any interest in or business dealings/transactions with the Group.

Principal terms of the Convertible Bonds

The principal terms of the Convertible Bonds are arrived at after arm's length negotiations between the Company and the Subscriber and are summarised as follows:

Principal amount:	HK$40,000,000
Interest:	The Convertible Bonds shall carry no interest
Maturity date:	30 months from the date of the issue of the relevant Convertible Bonds (the "**Maturity Date**")

Redemption:	Unless previously redeemed, repurchased and cancelled or converted, all and any outstanding Convertible Bonds shall be redeemed on the Maturity Date. The Company shall be entitled at any time on or after the expiry of the second anniversary of the date of issue of the Convertible Bonds while the Convertible Bonds are outstanding and have not been converted to redeem part or whole of the Convertible Bonds from the holder(s) of the Convertible Bonds pro-rata based on the principal amount of the Convertible Bonds then outstanding by serving 14-day prior notice of redemption to the relevant holder(s) of the Convertible Bonds.
Ranking of Conversion Shares:	The Conversion Shares will rank pari passu in all respects among themselves and with other New Shares in issue on the date of allotment and issue.
Conversion:	Provided that the Company will maintain the public float in compliance with the GEM Listing Rules upon conversion of the Convertible Bonds, the conversion rights attaching to any Convertible Bonds may be exercised, at the option of the holder(s) thereof, at any time from the date of the issue of the Convertible Bonds up to 4:00 p.m. (Hong Kong time) on the Maturity Date in amounts not less than whole multiples of HK$1,000,000.
Conversion period:	The Convertible Bonds may be converted in whole or in part at any time prior to the Maturity Date at the option of the holder(s) thereof.
Conversion Price:	The principal amount of the Convertible Bonds may be converted into New Shares of HK$0.10 each in the capital of the Company at the Conversion Price of HK$1.00 per Conversion Share, subject to adjustments for, amongst other things, consolidations or subdivisions of New Shares, capital distributions, bonus issues, rights issues and other usual events which may have a dilution effect on the Conversion Shares to be allotted and issued to the holder(s) of the Convertible Bonds upon the exercise of the conversion right attached to thereunder.
Voting:	The holder of the Convertible Bonds shall not be entitled to attend or vote at any meeting of the Company by reason only of it being the holder of the Convertible Bonds.

Transfer:	With the prior notification to the Company, the Convertible Bonds may be transferable provided that no transfer or assignment of the Convertible Bonds shall be made to any connected person of the Company without prior written consent of the Company.
Listing:	No application will be made for the listing of, or permission to deal in, the Convertible Bonds on the Stock Exchange or any other stock exchange. An application will be made to the GEM Listing Committee for the listing of, and permission to deal in the Conversion Shares.
Event of default:	Customary events of default including but not limited to: (a) non-payment of any amount due under the Convertible Bonds; (b) appointment of receivership, declaration of insolvency or a bankruptcy petition against the Company; and (c) the Company and its subsidiaries as a whole ceases to carry on its ordinary course of business

Mandate

The Company will seek a specific mandate from the Independent Shareholders for the allotment and issue of the Conversion Shares.

The Conversion Price

The initial Conversion Price of HK$1.00 per Conversion Share (subject to adjustments) was arrived at after arm's length negotiations between the Company and the Subscriber and represents:

(a) a discount of approximately 93.79% to the closing price of HK$16.10 per New Share as quoted on the Stock Exchange on 29 September 2011 (adjusted for and assuming completion of the Capital Reorganisation), being the last trading day immediately before the entering into of the Subscription Agreement;

(b) a discount of approximately 93.93% to the average of the closing prices per New Share of HK$16.48 as quoted on the Stock Exchange for the last five (5) trading days up to and including 29 September 2011 (adjusted for and assuming completion of the Capital Reorganisation), being the last trading day immediately before the entering into of the Subscription Agreement; and

(c) a premium of approximately 9.89% over the audited net asset value per New Share as at 31 December 2012 of approximately HK$0.91 (adjusted for and assuming completion of the Capital Reorganisation).

Assuming that there is no new issue of Shares or New Shares except for the Conversion Shares and the Capital Reorganisation has become effective, based on the initial Conversion Price of HK$1.00 per Conversion Share, 40,000,000 Conversion Shares will be allotted and issued upon exercise of the conversion rights attached to the Convertible Bonds in full, which represent: (i) approximately 304.83% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 75.30% of the issued share capital of the Company as to be enlarged by the allotment and issue of the Conversion Shares.

The aggregate nominal value of 40,000,000 Conversion Shares is HK$4,000,000. The net initial Conversion Price (after deduction of all related expenses) is approximately HK$0.98 per Conversion Share.

Conditions precedent

Completion of the 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 Takeovers Code and/or other applicable laws and regulations approving separately at the EGM (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 the Whitewash Waiver;

(b) the GEM Listing Committee having granted the listing of and permission to deal in, the Conversion Shares;

(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 Listing Rules;

(f) the granting of the Whitewash Waiver by the Executive; and

(g) the Capital Reorganisation having become effective.

The Subscriber shall use its best endeavours to procure the fulfillment of the condition set out in (e) and (f) above. The Company shall use its best endeavours to procure the fulfillment of the conditions set out in (a), (b), (c), (d) and (g) above. The Subscriber may at any time by notice in writing to the Company waive the condition set out in (c) above. The conditions set out in (a), (b), (d), (e), (f) and (g) above are incapable of being waived by the Company and the Subscriber. As at the date of the Announcement, condition (e) described above has been fulfilled.

If any of the conditions set out above have not been fulfilled or waived in full by 5: 00 p.m. on 31 October 2013 (or such other time and date as may be agreed between the Company and the Subscriber in writing), the Subscription Agreement will cease and determine and neither party shall have any obligations and liabilities thereunder save for any antecedent breaches of the terms thereof.

Shareholders and potential investors should be aware of and take note that Completion is conditional upon, among others, the GEM Listing Committee having granted the listing of and permission to deal in, the Conversion Shares. As the trading in the Shares on GEM has been suspended since 30 September 2011, the Stock Exchange has expressed that the GEM Listing Committee would only grant the listing of and permission to deal in, the Conversion Shares after trading in the Shares has been resumed.

The Stock Exchange has expressed reservation on the granting of the listing of and permission to deal in, the Conversion Shares before the Company has satisfied all the resumption conditions as set out in the letter from the Stock Exchange dated 13 July 2012. Therefore, the listing of and permission to deal in, the Conversion Shares may or may not be granted.

Issuance of this circular does not mean that trading in the Shares will be resumed and listing of the Conversion Shares will be approved by the Stock Exchange.

Shareholders and potential investors are advised to exercise caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.

Completion

Completion shall take place on the second Business Day after the conditions of the Subscription mentioned above have been satisfied or, as appropriate, waived or such other date as the Company and the Subscriber may agree.

REASONS FOR THE ISSUE OF CONVERTIBLE BONDS AND USE OF PROCEEDS

The Group is principally engaged in development, distribution and marketing of personal care treatment products.

The Subscriber is principally engaged in investment holding and an indirect wholly-owned subsidiary of the Subscriber Holding.

The Directors are of the view that the Subscription represents a good opportunity to raise additional funds for the future development of the Company. In addition, on the exercise of the conversion rights attaching to the Convertible Bonds, the long-term development of the Company will be benefited by broadening the capital base of the Company.

Taking into account:

(a) that the trading in the Shares has been suspended since 30 September 2011;

(b) that a considerable number of past transactions of the Group before suspension of trading in the Shares may be fictitious and the majority of the sales of the Group for the 5 years ended 30 June 2011 may not be genuine as revealed in the independent forensic accounting report issued on 28 September 2012 by RSM Nelson Wheeler Corporate Advisory Limited; and

(c) the financial performance of the Group since the suspension of trading in the Shares,

the Directors (excluding those Directors who are members of the Independent Board Committee, whose views are included in the section headed "Letter from the Independent Board Committee" in this circular) consider that it is not appropriate to evaluate the reasonableness of the Conversion Price by comparing it to the closing price of the New Shares (adjusted for and assuming completion of the Capital Reorganisation) prior to the suspension of trading. Given that the Conversion Price represents a premium of approximately 9.89% over the audited net asset value per New Share as at 31 December 2012 of approximately HK$0.91 (adjusted for and assuming completion of the Capital Reorganisation), the Directors (excluding those Directors who are members of the Independent Board Committee, whose views are included in the section headed "Letter from the Independent Board Committee" in this circular) consider that the Conversion Price is fair and reasonable.

As such, the Directors (excluding those Directors who are members of the Independent Board Committee, whose views are included in the section headed "Letter from the Independent Board Committee" in this circular) consider that the terms of the Subscription Agreement, which were arrived at after arm's length negotiations between the Company and the Subscriber, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

The gross proceeds from the Subscription are HK$40,000,000. The net proceeds from the Subscription, after deduction of all related expenses, of approximately HK$39.0 million, are intended to be applied in the following manner:

(a) HK$20 million for acquisition of a business similar to the existing business of the Group;

(b) HK$4 million for the settlement of the professional fees; and

(c) HK$15 million for the general working capital of the Group including the capital required for the development of the "Evidens de Beauté" distribution business.

The Company is considering an opportunity to acquire a beauty and medical products distribution company (the "**Target Company**") in Hong Kong. According to the unaudited management accounts for the year ended 31 March 2013 of the target company, the turnover and net profit of the target company for the year ended 31 March 2013 were approximately HK$9 million and HK$2 million respectively. As at the Latest Practicable Date, no agreement had been entered into by the Group in relation to the acquisition of the target company.

As at the Latest Practicable Date, none of the proposed vendors and current owners of the Target Company had any relationship or otherwise connected with the Subscriber, the Subscriber Holding, the Lender or their respective connected persons.

SHAREHOLDING STRUCTURE

The shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) after completion of the Capital Reorganisation but before the full exercise of the conversion rights attaching to the Convertible Bonds; and (iii) after completion of the Capital Reorganisation and the full exercise of the conversion rights attaching to the Convertible Bonds are as follows (assuming there being no other change in the share capital of the Company) (for illustration purposes only):

	At the Latest Practicable Date		After completion of the Capital Reorganisation but before the full exercise of the conversion rights attaching to the Convertible Bonds		After completion of the Capital Reorganisation and the full exercise of the conversion rights attaching to the Convertible Bonds *(Note 3)*	
Shareholders	**No. of existing Shares**	**Approximate Percentage**	**No. of New Shares**	**Approximate Percentage**	**No. of New Shares**	**Approximate Percentage**
The Directors						
Wang Xiaofei *(Note 1)*	230,400,000	17.56%	2,304,000	17.56%	2,304,000	4.34%
Du Juanhong *(Note 2)*	106,580,000	8.12%	1,065,800	8.12%	1,065,800	2.01%
Subscriber and parties acting in concert with it	—	—	—	—	40,000,000	75.30%
Public Shareholders	975,220,000	74.32%	9,752,200	74.32%	9,752,200	18.35%
Total:	1,312,200,000	100.00%	13,122,000	100.00%	53,122,000	100.00%

Notes:

1 Mr. Wang Xiaofei is a substantial shareholder and an executive Director.

2 Mr. Du Juanhong is a non-executive Director.

3 For illustration purposes only. Pursuant to the terms of the Convertible Bonds, the conversion rights attaching to the Convertible Bonds may be exercised provided that the Company will maintain the public float in compliance with the GEM Listing Rules.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS PRIOR TO THE LATEST PRACTICABLE DATE

The Company has not conducted any other fund raising activities in the past twelve months immediately prior to the Latest Practicable Date.

DEALING AND INTEREST OF THE SUBSCRIBER IN THE SECURITIES OF THE COMPANY

As at the Latest Practicable Date, save for the Subscription, (a) the Subscriber, the Subscriber Holding and parties acting in concert with any of them did not hold any outstanding derivatives in respect of securities in the Company, or held, controlled or had direction over any relevant securities (as defined in Note 4 to Rule 22) or any other interests in the share capital or voting rights in the Company; (b) the Subscriber, the Subscriber Holding and parties acting in concert with any of them did not borrow or lent any relevant securities (as defined in Note 4 to Rule 22) in the Company; (c) there was no arrangement (whether by way of option, indemnity or otherwise) in relation to the Shares or shares of the Subscriber which might be material to the Subscription and/or the Whitewash Waiver; (d) there was no agreement or arrangement to which any of the Subscriber, the Subscriber Holding and parties acting in concert with any of them was a party which related to circumstances in which it might or might not invoke or seek to invoke a pre-condition or a condition to the Subscription and/or the Whitewash Waiver; and (e) none of the Subscriber, the Subscriber Holding or parties acting in concert with any of them had received any irrevocable commitment to vote for or against the Subscription and/or the Whitewash Waiver.

APPLICATION FOR WHITEWASH WAIVER

Assuming the Capital Reorganisation takes effect and no further Shares or New Shares are issued or repurchased by the Company, the Subscriber will be interested in 40,000,000 New Shares, representing approximately 75.30% of the issued share capital of the Company as to be 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 is required to make a mandatory general offer to the Shareholders for all the issued New Shares (other than those New Shares already owned or agreed to be acquired by it) unless the Whitewash Waiver is obtained. The Subscriber has applied to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Code, which, if granted, will be subject to the approval of the Independent Shareholders taken by way of poll at the EGM.

The Executive has indicated that the Whitewash Waiver will be granted and will be conditional upon, among other things, the approval of the Independent Shareholders at the EGM by way of poll, at which the Subscriber, the Subscriber Holding, the Lender, and their respective associates and parties acting in concert with any of them, and other Shareholders who are interested or involved in the Subscription, the Whitewash Waiver and/or the Loan Agreement will abstain from voting on the relevant resolution(s). It is a condition precedent to Completion that the Whitewash Waiver is granted by the Executive. If the Whitewash Waiver is not granted by the Executive, the Subscription will not proceed.

If the Whitewash Waiver is approved by the Independent Shareholders, upon Completion and conversion of the Convertible Bonds, the aggregate shareholding of the Subscriber and parties acting in concert with it in the Company may exceed 50%. The Subscriber and parties acting in concert with it may further increase their shareholdings in the Company without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer.

SUBSCRIBER'S INTENTIONS IN RELATION TO THE GROUP

After Completion, the Subscriber intends to become a controlling Shareholder by exercising the conversion rights under the Convertible Bonds to hold at least 51% of the issued share capital of the Company and appoint a majority of the Directors to the Board.

Following Completion, the Subscriber intends to continue the existing business of the Group and has no intention to terminate the continued employment of the employees of the Group. The Subscriber has no intention to introduce any change to the existing business of the Group including any redeployment of the fixed assets of the Group. The Subscriber and the Company do not have any agreement, arrangement, understanding, intention or negotiation (concluded or otherwise) about:

(a) any disposal, termination, and/or scaling-down of the existing businesses and major assets of the Group up to the Latest Practicable Date;

(b) any injection and/or acquisition of assets and/or business of the Group up to the Latest Practicable Date; and

(c) carrying out a principal business different from the Company's existing business with 24 months after Completion.

The Subscriber is optimistic about the potential of the existing business the Group and considers that the Subscription will provide the Group with working capital to develop its existing business and the conversion of the Convertible Bonds will allow the Subscriber to benefit from the development of the existing business of the Group.

The Board considers that the intentions of the Subscriber in respect of the Group and its employees will maintain the continuity of the existing business of the Group and are therefore in the interests of the Company and the Shareholders as a whole.

THE LOAN AGREEMENT

On 21 March 2013 (after trading hours), the Company and the Lender entered into a Loan Agreement, pursuant to which, the Lender has conditionally agreed to grant an unsecured loan in the principal amount of HK$40,000,000 to the Company for a term of three (3) years from the date of drawdown.

The principal terms of the Loan Agreement are summarised as follows:

Date: 21 March 2013

Lender:	Hong Kong Builders Finance Limited, a licensed money lender in Hong Kong
Borrower:	the Company
Principal amount of the loan:	HK$40,000,000
Interest rate:	5% per annum
Security:	No security will be provided by the Company or any other party under the Loan Agreement
Term:	Three years commencing from the date of drawdown
Repayment:	The Company shall repay: (a) the interest on a quarterly basis in arrears; and (b) the principal amount of the loan in full at maturity.
Prepayment:	The Company may at any time prepay the loan in full together with the accrued interest by giving not less than ten Business Days' prior written notice to the Lender before maturity.
Conditions precedent:	The Loan Agreement is conditional upon the fulfilment 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 EGM the Loan Agreement and the transaction contemplated thereunder. As at the Latest Practicable Date, condition (b) had been fulfilled.
Long Stop Date:	31 October 2013 or such other day as agreed by the Lender and the Company

USE OF PROCEEDS FROM THE LOAN UNDER THE LOAN AGREEMENT

Koffman has provided loan facilities up to HK$50 million to the Company at the interest rate of 12% per annum. As at the Latest Practicable Date, the Company was indebted to Koffman in the sum of HK$40.8 million under such loan facilities.

As at the Latest Practicable Date, none of Koffman nor its beneficial owners had any interest in the Shares, convertible securities, warrants, options or derivatives of the Company.

If the Company is able to recover the New Balance of HK$34,627,500 from the Defendant as mentioned in the section headed "General information — Litigation" in appendix II to this circular, the Company will apply the recovered sum to partly settle the outstanding debts owing to Koffman and use part of the net proceeds from the loan to settle the remaining balance. The remaining net proceeds from the loan will be used as general working capital of the Group including the capital required for the proposed development of the "Evidens de Beauté" distribution business in China, Taiwan and Macau. If the Company is unable to recover the New Balance of HK$34,627,500 from the Defendant, HK$20 million net proceeds from the loan will be used as general working capital of the Group including the capital required for the proposed development of the "Evidens de Beauté" distribution business in China, Taiwan and Macau and the remaining balance of the net proceeds will be used to settle the outstanding debts owing to Koffman.

Given that (i) the Defendant has shown his willingness to repay the amount owing to the Company and (ii) a guarantee has been provided by Dutfield and the Company estimates that the proceeds from the sale of the Mortgaged Property after settling the liabilities under the First Mortgage will be sufficient to settle all the outstanding amount owing by the Defendant to the Company, the Company is optimistic on the recovery of all the outstanding amount owing by the Defendant to the Company.

REASONS FOR AND THE BENEFITS OF THE LOAN AGREEMENT

The Loan Agreement provides additional funding to repay the debts owing to Koffman and/or satisfy the Group's need for general working capital. Given that the loan is unsecured, the interest rate is lower than that under the loan facilities provided by Koffman and the terms of the Loan Agreement which were agreed between the parties after arm's length negotiations are on normal commercial terms, the Directors excluding those Directors who are members of the Independent Board Committee, whose views are included in the section headed "Letter from the Independent Board Committee" in this circular are of the view that the terms and conditions of the Loan Agreement are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

INFORMATION ON THE LENDER

The Lender is an indirect wholly-owned subsidiary of the Subscriber Holding. The Lender is a money lender licensed in Hong Kong under the provisions of the Money Lenders Ordinance. The Lender conducts money lending business in Hong Kong through the provision of secured and unsecured loans to customers.

The Lender and the Subscriber Holding are third parties independent of the Company and its connected person.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising the Company's non-executive Directors (namely Mr. Du Juanhong, Mr. Tam B Ray Billy, Mr. Chu Kin Wang Peleus and Mr. Tse Joseph) has been established to advise the Independent Shareholders as to (i) whether the Subscription Agreement and the transactions contemplated thereunder; the Whitewash Waiver; and the Loan Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (ii) how to vote at the EGM.

INDEPENDENT FINANCIAL ADVISER

New Spring Capital Limited has been appointed an independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement, and the transactions contemplated thereunder the Whitewash Waiver and the Loan Agreement and the transactions contemplated thereunder. Such appointment has been approved by Independent Board Committee.

FINANCIAL AND TRADING PROSPECT OF THE GROUP

The Group is exploring new business opportunities and furthering its business development. As announced by the Company on 26 October 2012, the Group intends to expand the distribution business for "Evidens de Beauté" products to mainland China and Taiwan. The Group is planning to establish a subsidiary in each of mainland China and Taiwan for the purposes of registering and distributing "Evidens de Beauté" products in these territories. In addition, the Group has the intention to expand the distribution business for "Evidens de Beauté" products to Macau. Such expansion plan is under negotiations with the brand owner of "Evidens de Beauté" products.

Furthermore, the Group is actively expanding the distribution channels of "Evidens de Beauté" product sand publicising this brand in Hong Kong, including:

(i) the Group is supplying "Evidens de Beauté" products to one of the biggest worldwide on line retail shop selling well known skin care & cosmetics brand;

(ii) the Group is discussing with a flight company to arrange for an inflight staff sales event;

(iii) the Group is liaising with a renowned hotel group in relation to the supply of the "Evidens de Beauté" products and "Le Spa Evidens" treatments to the guests of one of its hotel in Hong Kong;

(iv) the Group has renovated the store at World Trade Centre to transform it into a "Evidens de Beauté" point of sale which was opened on 30 April 2013; and

(v) the Group organized a 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. The Group is aiming to throw out similar event per quarter to bring the brand awareness.

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 they 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-month extension. On 14 May 2013, the Stock Exchange issued a letter to the Company in which the Stock Exchange agreed to grant such extension (the "**Extension Letter**"). Pursuant to the Extension Letter, the Company is required to provide a submission by 8 August 2013 to demonstrate that the Company has a viable and sustainable business, failing which the Stock Exchange would proceed to cancel the Company's listing under the delisting procedures set out in Rule 9.15 of the GEM Listing Rules.

EGM

A notice convening the EGM to be held at 3/F, Woo Sing Kee Industrial Building, 138 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong on Tuesday, 11 June 2013 at 11:30 a.m. is set out on pages 210 to 212 of this circular. Ordinary resolutions will be proposed at the EGM to approve the Subscription Agreement and the transactions contemplated thereunder, the Whitewash Waiver and the Loan Agreement and the transactions contemplated thereunder.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same at the Hong Kong branch share registrar of the Company, Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish and in such event, the proxy shall be deemed to be revoked.

In accordance with the Takeovers Code and the GEM Listing Rules, the Subscriber, the Subscriber Holding, the Lender, their respective associates and parties acting in concert with any of them, and other Shareholders who are interested or involved in the Subscription, the Whitewash Waiver and/or the Loan Agreement will abstain from voting on the relevant resolutions in respect of the Subscription Agreement and the transaction contemplated thereunder and as to voting at the EGM, the Whitewash Waiver and the Loan Agreement and the transactions contemplated thereunder. Save for the interest under the Subscription Agreement, the Subscriber, the Subscriber Holding, the Lender, their respective associates and parties acting in concert with any of them are not interested in any issued share capital of the Company. As as the Latest Practicable Date, Mr. Wang Xiaofei is interested in 230,400,000, representing 17.56% of the existing issued share capital of the Company and Mr. Du Juanhong through Hong Kong Wintek International Co., Limited ("**Wintek**") are interested in 106,580,000, representing 8.12% of the existing issued share capital of the Company and they intend to vote at the EGM in favour of the resolutions approving the Subscription Agreement, and the transactions contemplated thereunder, the Whitewash Waiver and the Loan Agreement and the transactions contemplated thereunder.

The resolution(s) proposed to be approved at the EGM will be taken by poll and an announcement will be made by the Company after the EGM on the results of the EGM.

RECOMMENDATION

The Directors (excluding those Directors who are members of the Independent Board Committee, whose views are included in the section headed "Letter from the Independent Board Committee" in this circular) believe that the Subscription Agreement, and the transactions contemplated thereunder, the Whitewash Waiver and the Loan Agreement and the transactions contemplated thereunder are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (excluding those Directors who are members of the Independent Board Committee, whose views are included in the section headed "Letter from the Independent Board Committee" in this circular) recommend the Independent Shareholders to vote in favour of all resolutions to be proposed at the EGM.

Shareholders are advised to read carefully the letter from the Independent Board Committee regarding the Subscription Agreement on pages 21 to 22 of this circular. The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, the text of which is set out on pages 23 to 62 of this circular, considers that the terms of the Subscription Agreement and the transactions contemplated thereunder, the Whitewash Waiver and the Loan Agreement and the transactions contemplated thereunder are fair and reasonable insofar as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions to approve the Subscription Agreement and the transactions contemplated thereunder, the Whitewash Waiver and the Loan Agreement and the transactions contemplated thereunder at the EGM.

GENERAL

Save as disclosed in the Section headed "Letter from the Board — EGM" of this circular, no Shareholder is required to abstain from voting on the resolutions to be proposed at the EGM.

Yours faithfully
For on behalf of the Board of
EDS Wellness Holdings Limited
Yu Shu Kuen
Chairman

The following is the text of the letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Subscription, the Whitewash Waiver and the Loan Agreement:

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)

23 May 2013

To the Independent Shareholders

Dear Sir or Madam

(I) SUBSCRIPTION FOR CONVERTIBLE BONDS; (II) APPLICATION FOR WHITEWASH WAIVER; AND (III) THE LOAN AGREEMENT

INTRODUCTION

We refer to the circular of the Company dated 23 May 2013 (the "**Circular**"), of which this letter forms part. Terms used herein have the same meanings as those defined in the Circular unless otherwise specified.

We have been appointed by the Board to form the Independent Board Committee to advise the Independent Shareholders as to: (i) whether the terms of the Subscription Agreement and the transactions contemplated thereunder, the Whitewash Waiver and the Loan Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the terms of the Subscription Agreement and the transactions contemplated thereunder, the Whitewash Waiver and the Loan Agreement and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole; and (iii) whether the Independent Shareholders should vote in favour of the resolutions to approve the Subscription Agreement and the transactions contemplated thereunder, the Whitewash Waiver and the Loan Agreement and the transactions contemplated thereunder at the EGM.

New Spring Capital Limited has been appointed as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders to opine on: (i) whether the terms of the Subscription and the transactions contemplated thereunder, the

* *For identification purpose only*

Whitewash Waiver and the Loan Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the terms of the Subscription Agreement and the transactions contemplated thereunder, the Whitewash Waiver and the Loan Agreement and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole; and (iii) whether the Independent Shareholders should vote in favour of the resolutions to approve the Subscription Agreement and the transactions contemplated thereunder, the Whitewash Waiver and the Loan Agreement and the transactions contemplated thereunder at the EGM.

We wish to draw your attention to the letter from the Independent Financial Adviser set out on pages 23 to 62 of the Circular which contain, among other things, its advice and recommendations regarding the Subscription Agreement and the transactions contemplated thereunder, the Whitewash Waiver and the Loan Agreement and the transactions contemplated thereunder and the principal factors and reasons taken into consideration for its advice and recommendations.

We also wish to draw your attention to the letter from the Board set out on pages 5 to 20 of the Circular and the additional information set out in the appendices to the Circular.

RECOMMENDATION

Having taken into account the advice and recommendations of the Independent Financial Adviser and the principal factors and reasons taken into consideration by it in arriving at its opinion, we consider that the Subscription Agreement and the transactions contemplated thereunder, the Whitewash Waiver and the Loan Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and the Subscription Agreement and the transactions contemplated thereunder, the Whitewash Waiver and the Loan Agreement and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM to approve the Subscription Agreement and the transactions contemplated thereunder, the Whitewash Waiver and the Loan Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
the Independent Board Committee of
EDS Wellness Holdings Limited

Mr. Du Juanhong	**Mr. Tam B Ray Billy**	**Mr. Chu Kin Wang Peleus**	**Mr. Tse Joseph**
Non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*	*Independent non-executive Director*

The following is the text of the letter of advice from New Spring Capital Limited, the Independent Financial Adviser, to the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder, the Whitewash Waiver and the Loan Agreement and the transactions contemplated thereunder, which has been prepared for the purpose of inclusion in this circular.

NEW SPRING
CAPITAL LIMITED
10th Floor Hip Shing Hong Centre
55 Des Voeux Road Central
Central
Hong Kong

23 May 2013

*To: the Independent Board Committee and
the Independent Shareholders of EDS Wellness Holdings Limited
(formerly known as China AU Group Holdings Limited)*

Dear Sirs,

(I) SUBSCRIPTION FOR CONVERTIBLE BONDS; (II) APPLICATION FOR WHITEWASH WAIVER; AND (III) THE LOAN AGREEMENT

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder, the Whitewash Waiver and the Loan Agreement and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company dated 23 May 2013 (the "**Circular**") to the Shareholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

According to the Announcement of the Company dated 21 March 2013, the Board announced that the Company and the Subscriber entered into the Subscription Agreement in respect of the issue of the Convertible Bonds in the principal amount of HK$40,000,000. Completion of the Subscription Agreement is subject to various conditions as set out in the Circular, among others, the GEM Listing Committee having granted the listing of and permission to deal in, the Conversion Shares. As the trading in the Shares on GEM has been suspended since 30 September 2011, the Stock Exchange has expressed that the GEM Listing Committee would only grant the listing of and permission to deal in, the Conversion Shares after trading in the Shares has been resumed. The Stock Exchange has expressed reservation on the granting of the listing of and permission to deal in, the Conversion Shares before the Company has satisfied all the resumption conditions as set out in the letter from the Stock Exchange dated 13 July 2012. Therefore, the listing of and permission to deal in, the Conversion Shares may or may not be granted. The issue of the Convertible Bonds and the Conversion Shares to be allotted and issued upon the exercise of the conversion rights attaching to the Convertible Bonds will also be subject to a specific mandate to be approved by the Independent Shareholders at the EGM.

Assuming the Capital Reorganisation takes effect and no further Shares or New Shares are issued or repurchased by the Company, the Subscriber will be interested in 40,000,000 New Shares, representing 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 New Shares (other than those New Shares already owned or agreed to be acquired by it) unless the Whitewash Waiver is obtained. In this regard, the Subscriber has applied to the Executive for the Whitewash Waiver in respect of the Subscription and the exercise of the conversion rights attaching to the Convertible Bonds subject to, among other things, approval by the Independent Shareholders in respect of the Subscription and the Whitewash Waiver at the EGM. In the event that the Executive does not grant the Whitewash Waiver and/or the Independent Shareholders who are allowed to vote under the GEM Listing Rules and the Takeovers Code do not approve the grant of the Whitewash Waiver, the Subscription will not proceed.

On 21 March 2013 (after trading hours), the Company and the Lender entered into the Loan Agreement, pursuant to which, the Lender has conditionally agreed to grant an unsecured loan in the principal amount of HK$40,000,000 to the Company for a term of three (3) years from the date of drawdown. As the Loan Agreement will be conditional upon completion of the Subscription Agreement, the Loan Agreement will also be subject to the Independent Shareholders' approval at the EGM.

The EGM will be held by way of poll to approve the Subscription Agreement and the transactions contemplated thereunder, the Whitewash Waiver and the Loan Agreement and the transactions contemplated thereunder. In accordance with the Takeovers Code and the GEM Listing Rules, the Subscriber, the Subscriber Holding, the Lender, and their respective associates (as defined under the GEM Listing Rules) and parties acting in concert with any of them, and other Shareholders who are interested or involved in the Subscription, the Whitewash Waiver and/or the Loan Agreement will abstain from voting on the relevant resolutions in respect of the Subscription Agreement, the Whitewash Waiver and the Loan Agreement and the transactions contemplated thereunder.

Accordingly, the Independent Board Committee comprising the Company's non-executive Directors (namely Mr. Du Juanhong, Mr. Tam B Ray Billy, Mr. Chu Kin Wang Peleus and Mr. Tse Joseph) has been established to advise the Independent Shareholders as to (i) whether the Subscription Agreement and the transactions contemplated thereunder, the Whitewash Waiver and the Loan Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (ii) how to vote at the EGM, after taking into account the recommendation of the Independent Financial Adviser appointed by the Company.

We, New Spring Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders as to whether the Subscription Agreement and the transactions contemplated thereunder, the Whitewash Waiver and the Loan Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole and as to how the Independent Shareholders should vote at the EGM. Our appointment as the Independent Financial Adviser has been approved by the Independent Board Committee. We do not, by this letter, warrant the merits of transactions contemplated hereunder, other than to form an opinion, for the purpose of the GEM Listing Rules and the Takeovers Code.

We are not associated with the Company, the Subscriber, the Subscriber Holding, the Lender, and their respective associates (as defined under the GEM Listing Rules) and parties acting in concert with any of them, and other Shareholders who are interested or involved in the Subscription and the Loan Agreement, and accordingly, are considered eligible to give independent advice on the terms and conditions of the Subscription Agreement and the transactions contemplated thereunder, the Whitewash Waiver and the Loan Agreement and the transactions contemplated thereunder. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from any parties above.

BASIS OF OUR OPINION

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders, we have relied on the accuracy of the information, opinions and representations provided to us by the Directors and management of the Company, and have assumed that all information, opinions and representations contained or referred to in this Circular were true and accurate at the time when they were made and will continue to be accurate as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion and intention made by the Directors in this Circular were reasonably made after due enquiry. We have no reasons to doubt that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading.

We consider that we have received sufficient information to enable us to reach an informed view and to justify reliance on the accuracy of the information contained in this Circular to provide a reasonable basis for our opinion and recommendation. We consider that we have performed all the necessary steps as required under Rule 17.92 of the GEM Listing Rules to enable us to reach an informed view and to justify our reliance on the information provided and representations made to us so as to form a reasonable basis for our opinion which include, among others:

(a) obtaining and reviewing the Announcement, the Letter from the Board, the annual reports of the Company for the three years ended 30 June 2012 (the "**Annual Reports**"), the first quarterly report of the Company for the three months ended 30 September 2012 (the "**First Quarterly Report**"), the interim report of the Company for the six months ended 31 December 2012 (the "**Interim Report**"), the third quarterly report of the Company for the nine months ended 31 March 2013 (the "**Third Quarterly Report**") and relevant announcements and/or circulars of the Company in relation to the Subscription;

(b) reviewing the performance and financial position of the Company, including but not limited to, the working capital forecast of the Group for a period of 18 months and the details of borrowings and owed liabilities of the Group as at 31 March 2013 and up to the Latest Practicable Date;

(c) obtaining and reviewing the information, documents and/or agreements in relation to the Subscription Agreement, the Whitewash Waiver and the Loan Agreement;

(d) conducting market research to provide references for the major terms of the Subscription Agreement and the Loan Agreement; and

(e) interviewing the Directors and the management of the Group regarding the reasons and background of entering into the Subscription Agreement and the Loan Agreement, the historical financial results, the future business plan, the working capital requirements and the alternative offers and fund raising arrangements of the Group, and so forth.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee and the Independent Shareholders, we have considered the following principal factors and reasons:

I. Background of the Group

The Group is principally engaged in development, distribution and marketing of personal care treatment products. Trading in the shares of the Company has been suspended since 30 September 2011 due to the delay in publication of the Group's annual results announcement for the year ended 30 June 2011.

We refer to the Annual Reports, First Quarterly Report, Interim Report, various announcements of the Company since 30 September 2011 and advices from the Directors and noted that:

On 7 March 2012, the former auditors of the Group, HLM & Co. ("**HLM**"), tendered their resignation as the independent auditors of the Group for the reasons that, (i) they have not been able to receive sufficient and appropriate audit evidence that they considered necessary for them to complete audit and form an opinion; and (ii) they have not been provided satisfactory explanations by the management of the Group to certain issues noted during the audit, which has greatly elevated the level of professional risk associated with the audit. HLB Hodgson Impey Cheng ("**HLB**") has been appointed as the independent auditors of the Group to fill the casual vacancy following HLM's resignation with effect from the same day. In view of the reasons for HLM's resignation, it was resolved by the Board on 7 March 2012 to establish a special investigation committee of the Company (the "**Special Investigation Committee**") for the purposes of, (i) investigating the issues raised by HLM in their resignation letter; (ii) reviewing the internal control procedures and corporate governance policies of the Group; and (iii) making recommendations to the Board on appropriate actions to be taken.

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

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

(a) engage an independent professional adviser acceptable to the Stock Exchange to conduct a forensic investigation (the "**Investigation**") to address all the issues raised in the Company's former auditors, HLM's resignation letter dated 7 March 2012 and the audit qualifications made by the Company's current auditors, HLB, in its independent auditors' report dated 8 June 2012;

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

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

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

The Company should also comply with the GEM Listing Rules and all the applicable laws and regulations before resumption. The Stock Exchange may modify any of the above conditions and/or impose further conditions if the situation changes.

On 16 July 2012, the Company appointed RSM Nelson Wheeler Corporate Advisory Limited ("**RSM**") as the independent forensic accountants to address the conditions set out by the Stock Exchange.

On 28 September 2012, a forensic investigation report (the "**Forensic Investigation Report**") was issued by RSM and the Company has submitted a copy of such report to the Stock Exchange on the same day. The major findings of the Forensic Investigation Report indicate that a considerable number of past transactions of the Group may be fictitious and a number of falsified documents, forged signatures and chops were involved in those fictitious transactions.

On 10 October 2012, the Special Investigation Committee has submitted the Forensic Investigation Report to the Board, which resolved, among others, to bring up the matters revealed in the Forensic Investigation Report for the attention of the Commercial Crimes Bureau of the Hong Kong Police Force (the "**CCB**"), since the matters might involve criminal activities.

On 19 October 2012, the Company has reported the matters revealed in the Forensic Investigation Report to the CCB of the Hong Kong Police Force.

Having considered the findings of the Forensic Investigation Report, the Company has engaged an independent professional adviser, to conduct a review and provide recommendations for the improvement of the Group's internal control system on 28 February 2013.

On 27 March 2013, the Company submitted a proposal (the "**Proposal**") to the Stock Exchange with a view to seek the Stock Exchange's approval for the resumption of trading in the Shares, taking into consideration of a number of actions being taken by the Company, which include, among others (i) engagement of RSM to conduct 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 Blu Spa (Hong Kong) Limited ("**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 adviser 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 for 12 months after resumption; 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 they 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-month extension. On 14 May 2013, the Stock Exchange issued a letter to the Company in which the Stock Exchange agreed to grant such extension (the "**Extension Letter**"). Pursuant to the Extension Letter, the Company is required to provide a submission by 8 August 2013 to demonstrate that the Company has a viable and sustainable business, failing which the Stock Exchange would proceed to cancel the Company's listing under the delisting procedures set out in Rule 9.15 of the GEM Listing Rules.

Having considered the series of events stated above, in particular, (i) the prolonged suspension of trading in the Shares; (ii) the resignation of former auditors and disclaimed opinions of current auditors; (iii) the findings of the Forensic Investigation Report may have indicated the ineffectiveness of the Company's internal control system; and (iv) past transactions may have involved criminal activities, which are under inspection by CCB, we agreed with the Directors that the Company is facing difficulties to attract investor(s) and/or retain existing Shareholders at the current stage, as their confidence level of investment would have been adversely affected by the uncertainties of those events.

II. Financial information of the Group

(i) Opinions of the auditors

The consolidated financial statement for the year ended 30 June 2010 was audited by HLM and an unqualified opinion was issued. The consolidated financial statements for the years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 were audited by HLB, whom has given disclaimed opinions.

The audit qualification on the consolidated financial statements for the year ended 30 June 2011 was mainly related to (i) scope limitations on various elements making up the consolidated financial statements, due to the reasons that, including among others, inadequate documentary evidence was available; no any effective confirmation procedures could be carried out; no alternative audit procedures could be performed; and lack of complete books and records of some subsidiaries; and (ii) material uncertainties relating to the going concern basis of accounting adopted by the Group.

The audit qualification on the consolidated financial statements for the year ended 30 June 2012 was mainly related to (i) the opening balances, which forms the basis of the corresponding figures was disclaimed; (ii) scope limitations on investments in and balance with Unconsolidated Subsidiaries (defined below) due to lack of complete books and records of them; (iii) material uncertainty relating to the Investigation; and (iv) material uncertainties relating to the going concern basis of accounting adopted by the Group.

The audit qualification on the consolidated financial statements for the six months ended 31 December 2012 was mainly related to (i) the opening balances, which forms the basis of the corresponding figures was disclaimed; (ii) investment in Unconsolidated Subsidiaries (as defined below) due to the uncertainties of potential irregularities based on the results of the Investigation; (iii) scope limitations on balance with Unconsolidated Subsidiaries (defined below) due to lack of complete books and records of them; and (iv) material uncertainties relating to the going concern basis of accounting adopted by the Group.

(ii) Financial results

Having considered the findings of the Forensic Investigation Report and complete documentary information and reasonable explanation in respect of the transactions asserted to have been taken by certain subsidiaries, being BSHK and its subsidiaries (the "**BSHK Group**"), Clapton Holdings Limited, Blu Spa International Limited and Blu Spa Management Services Limited (collectively referred to as the "**Unconsolidated Subsidiaries**"), 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 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 condensed consolidated financial statements for the three months ended 30 September 2012, the six months ended 31 December 2012 and the nine months ended 31 March 2013.

The following table set forth summaries of the Group's profitability as extracted from the Annual Reports, First Quarterly Report, Interim Report and Third Quarterly Report:

	For the year ended 30 June			For the three months ended 30 September	For the six months ended 31 December	For the nine months ended 31 March
	2010	**2011**	**2012**	**2012**	**2012**	**2013**
	HK$'000	*HK$'000* (restated)	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*	*HK'000* (unaudited)
Continuing operations						
Turnover	99,662	49,064	702	3,514	4,394	5,406
(Loss)/Profit for the year/ period from continuing operations	27,113	(189,454)	(100,389)	(5,648)	(13,558)	(19,374)
Discontinued operations						
(Loss)/Profit for the year/ period from discontinued operations	—	3,774	—	—	—	—
(Loss)/Profit for the year/ period	27,113	(185,680)	(100,389)	(5,648)	(13,558)	(19,374)

Source: the Annual Reports, First Quarterly Report, Interim Report and Third Quarterly Report published in the website of the Stock Exchange

Referring to Annual Reports, the Group recorded turnover from continuing operations of approximately HK$99.7 million for the year ended 30 June 2010 and was subsequently declined to approximately HK$49.1 million for the year ended 30 June 2011, which was mainly due to a decrease in the sales of beauty equipment of approximately 53.6% during the year ended 30 June 2011. As stated above, due to De-consolidation, the results of the Unconsolidated Subsidiaries have not been included in the condensed consolidated financial statements of the Group for the year ended 30 June 2012, the three months ended 30 September 2012, the six months ended 31 December 2012 and the nine months ended 31 March 2013. The Group's turnover from continuing operations was further reduced to approximately HK$0.7 million for the year ended 30 June 2012 with unsatisfactory performance of the three business segments. For the three months ended 30 September 2012, the six months ended 31 December 2012 and the nine months ended 31 March 2013, the Group recorded turnovers from continuing operations of approximately HK$3.5 million, HK$4.4 million and HK$5.4 million respectively, of which approximately 40% were generated from the sale of beauty products under "Blu Spa" and "Evidens de Beauté" brands and more than 30% were generated from provision of beauty treatments.

The Group has recorded net profit of approximately HK$27.1 million for the year ended 30 June 2010, but it has suffered consolidated losses attributable to owners of the Company of approximately HK$185.7 million and HK$100.4 million for the years ended 30 June 2011 and 2012 respectively. It is noted that such losses were mainly due to impairment losses recognised in respect of intangible asset, trade receivables and and/or deposits, prepayments and other receivables incurred by the Group during the financial years.

Referring to the First Quarterly Report and Interim Report, the consolidated losses attributable to owners of the Company amounted to approximately HK$5.6 million and HK$13.6 million for the three months ended 30 September 2012 and the six months ended 31 December 2012, which have been improved comparing to the corresponding periods of last year with net losses amounted to approximately HK$82.8 million and HK$83.4 million, respectively, mainly in relation to the non-recurrence of once off impairment losses recognised in respect of deposits, prepayments and other receivables. The net loss of the Group for the three months ended 30 September 2012 was mainly attributable to the direct costs of salaries and rental expenses incurred in the preliminary development stage of the Group's new business and the relatively higher administrative expenses incurred during the period. Further, the net loss of the Group for the six months ended 31 December 2012 was also due to the extra sales discounts offered for the sales of beauty products under the brand name "Blu Spa". The Group continued to record net loss of approximately HK$19.4 million for the nine months ended 31 March 2013.

We further set forth below the summaries of the Group's financial position as extracted from the Annual Reports and Interim Report:

		As at 30 June		As at 31 December
	2010	**2011**	**2012**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets	11,100	9,626	3,156	7,014
Current assets	267,056	124,584	54,523	42,918
Current liabilities	18,603	24,440	31,757	37,623
Net current assets	248,453	100,144	22,766	5,295
Non-current liability	71,688	—	449	394
Net assets	187,865	109,770	25,473	11,915

Source: the Annual Reports and Interim Report published in the website of the Stock Exchange

As at 30 June 2012, the Group had net assets of approximately HK$25.5 million, which was declined by approximately 86.4% from approximately HK$187.9 million as at 30 June 2010 and further declined to approximately HK$11.9 million as at 31 December 2012. The net current assets of the Group was reduced from approximately HK$22.8 million as at 30 June 2012 to approximately HK$5.3 million as at 31 December 2012. Such declines were partly resulted from the large amount of accumulated losses due to impairment losses and unsatisfactory performance of the Group as mentioned, for the years ended 30 June 2011 and 2012 and the six months ended 31 December 2012. Further, the assets and liabilities of the Unconsolidated Subsidiaries have not been included in the consolidated financial statements of the Group for the year ended 30 June 2012 and the six months ended 31 December 2012 as stated above.

As at 30 June 2012, the Group had bank balances and cash of approximately HK$308,000, recording a decline of approximately 78.6% compared to the balance of last financial year. The Group suffered net cash used in operating activities of approximately HK$145.5 million, HK$30.8 million, HK$32.0 million and HK$7.3 million for the years ended 30 June 2010, 2011 and 2012 and the six months ended 31 December 2012 respectively. As at 31 December 2012, the bank balances and cash of the Group accounted for approximately HK$301,000.

III. Reasons for the issue of Convertible Bonds and use of proceeds

As stated in the Letter from the Board, the Directors are of the view that the Subscription represents a good opportunity to raise additional funds for the future development of the Group. In addition, on the exercise of the conversion rights attaching to the Convertible Bonds, the long-term development of the Company will be benefited by broadening the capital base of the Company.

It was also stated in the Letter from the Board that the gross proceeds from the Subscription are HK$40,000,000. The net proceeds from the Subscription, after deduction of all related expenses, of approximately HK$39.0 million, are intended to be applied in the following manner:

(a) HK$20 million for acquisition of a business similar to the existing business of the Group;

(b) HK$4 million for the settlement of the professional fees; and

(c) HK$15 million for the general working capital of the Group including the capital required for the development of the "Evidens de Beauté" distribution business.

It is noted that the Company is considering an opportunity to acquire a beauty and medical products distribution company (the "**Target Company**") in Hong Kong. According to the unaudited management accounts for the year ended 31 March 2013 of the Target Company, the turnover and net profit of the Target Company for the year ended 31 March 2013 were approximately HK$9 million and HK$2 million respectively. As at the Latest Practicable Date, no agreement had been entered into by the Group in relation to the acquisition of the Target Company.

To examine the reasonableness of the reasons for the issue of Convertible Bonds, we have considered the following factors:

(i) Necessity of additional funds for general working capital and future development

- *Financial results*

Referring to the section headed "II. Financial information of the Group" of this letter, the Group suffered losses from continuing operations of approximately HK$100.4 million, HK$13.6 million and HK$19.4 million for the year ended 30 June 2012, the six months ended 31 December 2012 and the nine months ended 31 March 2013 respectively. The Group also recorded net cash used in operating activities of approximately HK$32.0 million for the year ended 30 June 2012, while the cash position remained low as approximately HK$308,000 and HK$301,000 as at 30 June 2012 and 31 December 2012 respectively. The current ratio of the Group (equivalent to current assets divided by current liabilities) substantially decreased from approximately 5.1 as at 30 June 2011 to approximately 1.7 as at 30 June 2012, and further reduced to approximately 1.1 as at 31 December 2012. Therefore, we consider that the Group's financial results and position have suggested that the historical unsatisfactory operating results were not able to generate sufficient resources to support daily working capital requirement and have created liquidity problem for the Company currently.

- *Fund raising activities*

We noted that the Company has not conducted any fund raising activities in the past twelve months immediately prior to the Latest Practicable Date. On 5 August 2011, the Company completed the placing in an aggregate of 110,000,000 new shares under general mandate with net proceeds of approximately HK$16.0 million. However, the Company advised that the net proceeds from the placing of shares had been fully utilised for the Group's general working capital as at 30 June 2012.

- *Going concern basis*

Referring to the Company's annual reports for the years ended 30 June 2011 and 2012, the First Quarterly Report and the Interim Report, HLB, as the independent auditor of the Group, considered that the unsatisfactory results of the Group had indicated the existence of a material uncertainty and may cast significant doubt about the Group's ability to continue as a going concern. However, the Directors are of the opinion that if the Group could successfully complete (i) the repayment of the amount due from the Unconsolidated Subsidiaries of approximately HK$36.5 million; (ii) the extension of repayment of a loan facility of approximately HK$31.4 million granted by a company owned by an executive Director; (iii) the completion of the Subscription Agreement, in respect of the issue of the Convertible Bonds in the principal amount of HK$40,000,000; and (iv) the completion of the Loan Agreement with the principal amount of HK$40,000,000 (the "**Proposed Plans**"), then the Group would be able to generate sufficient funds to meet its future working capital requirements and financial obligations when they fall due.

We have discussed with the Directors on the status of the Proposed Plans and noted the followings:

(a) under the deeds of settlement and assignment between the Company, BSHK and Mr. Shum Yeung as mentioned in the announcement of the Company dated 29 January 2013, it is noted that the new principal balance of approximately HK$34.6 million (the "**New Balance**") shall be payable by Mr. Shum Yeung to the Company on or before 31 March 2013. However, as stated in the Company's announcement dated 25 April 2013, Mr. Shum Yeung failed to repay the New Balance to the Company on 31 March 2013. Upon negotiations, on 22 April 2013, the Company agreed to accept Mr. Shum Yeung's new repayment proposal, major terms of which included, among others, the repayment of the New Balance has been further extended to 30 April 2013. The Company advised that Mr. Shum Yeung defaulted to repay the New Balance as at 30 April 2013. As referred to the Company's announcement dated 3 May 2012 and as mentioned in the section headed "Appendix II — Litigation" of the Circular, upon further negotiations, the Company and Mr. Shum Yeung have principally agreed to a new repayment proposal that, among others, approximately HK$22.6 million, being part of the New Balance, shall be payable on or before 31 May 2013, and the remaining balance of the New Balance, being approximately HK$12.0 million shall be payable on or before 31 July 2013. Further, a guarantee has been unconditionally and irrevocably provided by Dutfield International Group Company Limited ("**Dutfield**"), being 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, as a principal debtor and not merely as a surety, that it shall be jointly and severally liable to the Company for Mr. Shum Yeung's debts and liabilities under the legal proceedings. Dutfield undertakes that if and whenever Mr. Shum Yeung 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 Mr. Shum Yeung's debt due to the Company under the legal proceedings; and

(b) in view of the insufficient of general working capital, the Company entered into two short-term loan agreements in normal commercial terms with Koffman, of which Mr. Yu, the chairman of the Board and an executive Director, is the ultimate beneficial owner, in the principal amount of (i) HK$10.0 million on 8 February 2012, all the outstanding borrowings and interest expenses accrued thereon of which had been repaid on 7 May 2012; and (ii) HK$20.0 million on 27 March 2012 for a term of 3 months at interest rate of 12% per annum. The loan facility of HK$20.0 million entered into on 27 March 2012 was increased to a principal amount of HK$50.0 million in accordance with the supplementary loan agreement dated 26 June 2012. As at the Latest Practicable Date, the outstanding indebtedness was approximately HK$40.8 million, the maturity date of which had been extended to 31 May 2013, after entering of eleven 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 and 30 April 2013.

As refer to the Company's annual reports for the years ended 30 June 2011 and 2012, the First Quarterly Report and the Interim Report, the applicability of the going concern basis depends on the outcomes of the Proposed Plans and the Group's ability to generate sufficient funds to meet its future working capital requirements and financial obligations when they fall due, however we consider that the eventual outcome of the Proposed Plans is uncertain at the current stage, in view of their status as discussed above.

Having considered the above factors, including (i) the historical unsatisfactory financial performance and financial positions of the Group is hardly able to support daily operations of the Group; (ii) the lack of fund raising activities conducted during the preceding twelve months; and (iii) the funding gap and financial burden resulted from the defaults of repayment amounts of approximately HK$34.6 million payable by Mr. Shum Yeung to the Company, we are of the view that it is necessary for the Company to generate additional funds to meet its future working capital and development requirements.

Regarding the outstanding indebtedness of approximately HK$40.8 million due to Koffman, we have been advised by the Company that the loan facility had been fully utilised as general working capital as at the Latest Practicable Date. In view of its repetitive extension of repayment and approaching maturity date on 31 May 2013 (if no further extension will be granted), the current cash balance of the Group with approximately HK$301,000 as at 31 December 2012 is not sufficient to fulfill such large amount of near financial obligation. We consider that it is reasonable and also requisite for the Company to use its best endeavors to fulfill its financial obligation.

The completion of the Subscription Agreement and the Loan Agreement are conditional on the Company achieving resumption of which the timing is uncertain. In order to satisfy the Company's general working capital needs before it will obtain the funds from the Subscription Agreement and the Loan Agreement, we are advised by the Directors that the Company will (i) utilise the internal resources generated from its operating activities; and (ii) consider requesting extension of repayment of the outstanding indebtedness due to Koffman (subject to negotiations with Koffman) and continue to draw down the remaining balance of the loan facilities provided by Koffman.

(ii) The future development plan of the Group

It is advised that the net proceeds from the Subscription will be applied on future development of the Company. In order to assess the reasonableness on the application of net proceeds for future development of the Company, we have considered major factors as below:

- *Major actions of the Group in improving its profitability*

In order to improve the Company's profitability, we have been advised that the Board has tried their best endeavors to rescue and improve the operations of the Group through various ways from 1 July 2011 to the Latest Practicable Date, including among others:

(a) streamlining the operations: the Group has terminated 4 spa centres, 4 retail shops and 1 hair rejuvenating centre in Hong Kong, with a view to cease the operations with loss-making and/or relatively low profit margin, reduce the operating expenses (e.g. administrative costs, rental expenses and overheads) and better match with positioning of new products; and

(b) exploring new business opportunities: on 13 July 2012, the Group has entered into an exclusive distribution agreement (the "**Exclusive Distribution Agreement**") with Montaigne Limited ("**Montaigne**") to act as an exclusive distributor of "Evidens de Beauté" products in Hong Kong. Montaigne is the exclusive licensee of the trademark "Evidens de Beauté" in Hong Kong and manufacturers and sells under such trademark perfumes, cosmetics, beauty toiletry and allied products.

We are advised by the Directors that the Group's future plan will be focused on development of distribution business for the "Evidens de Beauté " products. In view of that, we have reviewed the Exclusive Distribution Agreement and advised by the management of the Group that Montaigne has granted exclusive distributorship of "Evidens de Beauté " products in Hong Kong to the Group for an initial term of three (3) years which shall be renewed automatically thereafter for periods of one (1) year unless terminated by either party pursuant to the Exclusive Distribution

Agreement. In order to promote "Evidens de Beauté " products and generate further income for the Group, the Group has been taken the following major actions, including among others:

(a) opened a spa of around 2,231 sq. ft. with the brand "Le Spa Evidens" in Causeway Bay, Hong Kong, on 5 October 2012, with the initial investment cost at approximately HK$7.0 million, including costs of decoration, purchasing of equipment, purchasing of furniture and fixtures, rent and rates, building management fee, recruitment and staff training; and

(b) completed renovation of store in World Trade Centre, Hong Kong and transformed it into a "Evidens de Beauté " point of sale, on 30 April 2013 with renovation cost at approximately HK$450,000, including costs of refurbishment, installing point of sales ("**POS**") system and other miscellaneous costs.

Having considered (i) the actions have been taken by the Group to improve its profitability; and (ii) the capital injected into the new business, we considered that the Group has engaged concrete efforts to enhance the sufficient level of its operations, which has been part of the Proposal, and is beneficial to the Shareholders as a whole.

- *Current business model of the Group*

As refer to the Company's annual report for the year ended 30 June 2012, the Group has discontinued operations of two revenue segments, being royalty fee income and provision of training courses. Therefore, we have discussed with management of the Group on the current business model. As at the Latest Practicable Date, the Group is principally engaged in development, distribution and marketing of personal care treatment products with three business segments as below:

(a) sales of beauty equipment: sourcing and trading of beauty equipment for customers who apply the equipment mainly in their therapy centres;

(b) sales of beauty products: distributing beauty products under "Blu Spa" and "Evidens de Beauté" brands through various channels; and

(c) therapy services: providing an array of skin treatments and spa services under brands "Blu Spa" and "Le Spa Evidens" using beauty products under "Blu Spa" and "Evidens de Beauté" in the Company's self-operated spa centres.

It is noted from the Company that there is no distribution agreement for "Blu Spa" products currently and the Company is considering repositioning the "Blu Spa" brand. Further, the Company advised that there is no development plan for sales of beauty equipment, as it is not the major focus of the Company's future business development and such business is under streamlining process. The Group started the distribution of "Evidens de Beauté" products since July 2012 and began generating revenue from September 2012. Based on the First Quarterly Report, the Interim Report and the Third Quarterly Report, we are advised by the Directors that there is an increasing trend of sales results of the new distribution business of "Evidens de Beauté" products. The breakdown of the Group's turnover by segments are set forth below:

	For the three months ended 30 September 2012	For the six months ended 31 December 2012	For the nine months ended 31 March 2013
	HK$'000	*HK$'000*	*HK'000*
Revenue segment			
Sales of beauty equipment	1,121	1,140	1,140
Sales of beauty products			
"Blu Spa"	1,185	1,466	1,611
"Evidens de Beauté"	127	270	720
Therapy services			
"Blu Spa"	1,072	1,408	1,476
"Le Spa Evidens"	9	110	459
Total	3,514	4,394	5,406

We noted from the above table that revenue generated from sales of "Evidens de Beauté" products and therapy services of "Le Spa Evidens" demonstrated substantial increases from the three months ended 30 September 2012 to the nine months ended 31 March 2013. We have been further advised by the Directors that the increasing trends of revenue for the distribution business of "Evidens de Beauté" products continued for the ten months ended 30 April 2013, taking advantages from, among others, the marketing and promotion efforts on "Evidens de Beauté" product line.

- *Overview of "Evidens de Beauté" products*

It is noted that "Evidens de Beauté" is a luxury skincare line, the anti-ageing skincare for sensitive skin, comprising a complete range of products including make-up remover, cleansing foaming gel, moisturizing lotion, serum, cream, moisturizer, mask, exfoliating cream, sunscreen, body care products, etc. Although the brand "Evidens de Beauté" is relatively new in

Hong Kong, we are advised that it is an international brand with recognition around the world and used by many international celebrities. The Directors further advised that there are currently hundreds of points of sales covering 16 countries in four continents including Asia, Europe, Middle East and North America. As mentioned, the Company is the exclusive distributor of "Evidens de Beauté" products in Hong Kong.

The Company treats "La Mer", "La Prairie", "Valmont" and "Cle de Peau" its major competitors in the distribution business for "Evidens de Beauté" products in Hong Kong, for the reasons that (i) they are most luxurious skincare brands in Hong Kong as the brand of "Evidens de Beauté"; (ii) they priced at a similar level as those of "Evidens de Beauté" products; and (iii) their main distribution channel is concessionary counters at high class department stores and one of them also operates spa centres as the Company. Among the competitors, the Company considers that the major competitive advantages of "Evidens de Beauté" products are (i) the first anti-ageing skincare line adapted to sensitive skin; (ii) products containing an exclusive anti-ageing complex; and (iii) the ingredient consisting of three collagens targeting three diffident layers of the skin.

- *Sales channels*

To cope with the current business model, we have been advised that the Company has major sales channels as follows:

(a) Self-operated retail stores

— The retail store in World Trade Centre, Hong Kong is the "Evidens de Beauté" point of sale

— The retail store in Mikiki shopping mall, San Po Kong, Hong Kong is the "Blu Spa" point of sale

(b) Self-operated spa centres

— The spa centre under the brand "Le Spa Evidens" in Causeway Bay, Hong Kong is exclusively using "Evidens de Beauté" products in spa treatments

— The spa centre under the brand "Blu Spa" in Mikiki shopping mall, San Po Kong, Hong Kong is exclusively using "Blu Spa" in spa treatments

(c) Internet channel

— The Company is supplying "Evidens de Beauté" products to StrawberryNet, one of the biggest worldwide online retail shop selling well known skin care and cosmetics brand with an website of www.strawberrynet.com

— The Company is also engaging in online sales of "Evidens de Beauté" products through its operated website www.evidens.asia

(d) Sales events/special projects

— Sales events will be arranged from time to time, such as airline staff sales event and short term house event

— The Company is liaising with a couple of renowned hotel groups in relation to supply "Evidens de Beauté" products and "Le Spa Evidens" treatments to the guests of their hotels in Hong Kong

We have conducted research on major competitors of the Group as mentioned above and noted that the Group has been using similar sales channels as those of the competitors.

- *Expertise and human resources in new business*

After discussion with the management of the Group and reviewing the resumes of senior management members, we noted that each of senior management members who are responsible for "Evidens de Beauté" business obtained years of experience in beauty industry, which are valuable assets of the Company in developing distribution business for the "Evidens de Beauté" products. We are also advised by the Directors that the Company has allocated sufficient human resources to this business and will further recruit talents for future expansion. As at the Latest Practicable Date, the Group has employed 14 employees for the distribution business of "Evidens de Beauté" and the relevant breakdown is set forth below:

Function	**Number of employees**
Management	1
Sales and marketing	3
Retail stores and spa centres	10

- *Industry overview*

To understand the prospect of the future business that the Group has planned to engage, we have conducted market research on skincare industry and noted the followings:

(a) Future growth in global sales of premium beauty products

Referring to a press briefing by Euromonitor International in April 2012, a leading independent provider of industry research and market analysis, with title "Reinvesting Beauty: Breaking with Traditional Dimensions for Growth", it stated that the global sales of premium beauty products (consisting of bath and shower, fragrances, hair care, skincare, sun care, etc.) would increase from US$93 billion in 2011 to US$105 billion in 2016. The global growth in internet sales of beauty products are mainly boosted by developing markets, while the beauty internet sales in Asia Pacific will grow from US$4,000 million in 2011 to almost US$7,000 million in 2016, with a CAGR of approximately 11%.

(b) Future growth in skincare and premium facial care markets

Further to a post titled "Skin Care: The Powerhouse of Beauty" by Euromonitor International in March 2013, it is noted that global skin care market has continued its strong performance in beauty and personal care during 2011. Asia Pacific region remained the dominator in premium facial care category in 2011 and China is one of the major countries in Asia Pacific targeted by the larger global players with estimated absolute growth of over 40% in skin care sales by 2016. The face care category remained the biggest skin care category globally with products of anti-agers and facial moisturizers recording the highest growths during 2011 and the facial care category is expected to show more than 80% of additional growth by 2016.

(c) Future growth in anti-ageing skin care market

Referring to a publication by Euromonitor International in 2012 titled "Finding the Sweet Spot of Nutricosmetics", it is noted that nourishers/anti-agers is set to post the highest compound annual growth rate in global skin care from approximately US$23 billion in 2011 to approximately US$28 billion in 2016, with around 5% constant growth annually. Further to an article published by Euromonitor International in August 2011 titled "Super Premium Beauty on Cusp of a New Era of Growth", it is noted that China is the revenue driver in anti-ageing products and is set to add US$1.6 billion to its anti-ager value by 2015, due to rising disposable incomes in the country.

- *Future plan and use of proceeds*

Given the prospect of premium skincare industry and the Company's distribution business for "Evidens de Beauté" products under the Exclusive Distribution Agreement, we are advised by the Directors with the following future plans of the Group:

(a) Enlarging the operational scale of the Group: the Company is considering an opportunity to acquire a beauty and medical products trading company in Hong Kong. It is expected that the Company will take several months to negotiate with the vendor and conduct a detailed due diligence review on the Target Company to determine the terms of the proposed acquisition. The Directors consider that the proposed acquisition will benefit the Group mainly in the aspects of: (i) leading to an improvement and increment of operating results and scales of the Company, given the historical performance of the Target Company; and (ii) a possible future sales channel to the Company with its established networks.

(b) Expanding the distribution network: (i) the Group is seeking a suitable location in upscale shopping mall in Hong Kong to open a boutique store or concessionary counter of "Evidens de Beauté" products; (ii) the Group is in the process of establishing a subsidiary in Xian, China and will arrange for registration of a selected range of the "Evidens de Beauté" products in China; and (iii) the Group is also in the discussion with Montaigne for the development of the brand and distributorships in Hong Kong, China, Taiwan and Macau.

(c) Enhancing the marketing and promotion of "Evidens de Beauté" product line: the Group recognises that high brand recognition and strong publicity are essential for penetrating products into the market, in particular, "Evidens de Beauté" brand is new to consumers in Asia. Therefore, the Group plans to allocate further resources in marketing and promotion activities, so as to develop luxury brand image and familiarise the public with "Evidens de Beauté" brand, including but not limited to, (i) the Group aims to organise house events per quarter to invite guests and introduce the brand and type of services and treatments provided at the spa centre, so as to enhance the brand awareness; (ii) the Group plans to organise a 1 day press event in May 2013 to invite 40 beauty editors and 30 special guests to meet with the founder of the "Evidens de Beauté" group; and (iii) the Group will cooperate with public relation company to make "Evidens de Beauté" brand as the only title skincare sponsor for the 25th anniversary celebration event of Occasions hosted by Ms. Pansy Ho and Ms. Yvette Yuen together with the Hong Kong Cancer Fund to attract press or media coverage and promote the awareness of the brand "Evidens de Beauté".

(d) Repositioning of the "Blu Spa" product lines: the Group is in the process of selecting suitable manufacturers to produce and re-develop the formula of "Blu Spa" products, in order to better suit customers' current preference on skincare and body care. Meanwhile, the products under the "Blu Spa" brand will be repositioned and repackaged to create a balanced product mix, in order to penetrate into different market segments and enlarge the customer base.

(e) Developing and enhancing the POS system: the current POS system is at the trial run stage and expected to be in full function on or before 31 July 2013. In view that the distribution network will be increased in the future, the Group plans to allocate additional resources to enhance the POS system to link up all sales points in the future. The Directors believe that the system will enhance efficiency of the Group's operation on inventory control and help management to better monitor the business.

We have reviewed the working capital forecast of the Group for a period of 18 months and are also advised by the Directors that the net proceeds from the issue of the Convertibles Bonds are intended to be utilised in accordance with the future plans as described above, including but not limited to, the proposed acquisition, product procurement, renovation, rental, marketing and promotion activities, sales and traveling, recruitment and training, salaries and welfare, administrative supports and so forth.

Taking consideration of the factors that (i) insufficient working capital at the current stage of the Group to support the future plan as discussed earlier under "Necessity of additional funds for general working capital and future development"; (ii) the concrete actions and business model as demonstrated above; (iii) the prospect of skincare industry; (iv) the future plans of the Company in developing the distribution business for "Evidens de Beauté" products; and (v) the proposed acquisition of a trading company engaging in similar business as that of the Company, which is expected to enlarge the operational scale of the Group, so as to enable the Company to maintain a sufficient level of operations and satisfy its continued listing obligations under Rule 17.26 of the GEM Listing Rules, we are of the view that it is reasonable to raise new funds and to apply the net proceeds of the Subscription Agreement on the future development of the Company and hence the issue of the Convertible Bonds is in the interest of the Company and the Shareholders as a whole.

IV. The Subscription Agreement

(i) Information of the Subscriber

The Subscriber is principally engaged in investment holding and is an indirect wholly-owned subsidiary of the Subscriber Holding. The Subscriber Holding through its subsidiaries is principally engaged in distribution of films, sub-licensing of film rights, sales of financial assets, provision of management services to the concierge department of a gaming promoter, property investment and money lending.

As refer to the Letter from the Board, the Subscriber, the Subscriber Holding and parties acting in concert with any of them, are third parties independent of the Company and its connected persons, save as disclosed above a tenancy agreement between the Company and the Rexdale Investment Limited, an indirect wholly-owned subsidiary of the Subscriber Holding to be terminated on 1 June 2013, prior to the entering into of the Subscription Agreement and the Loan Agreement, neither the Subscriber, the Subscriber Holding nor parties acting in concert with any of them has any interest in or business dealings/transactions with the Group.

(ii) The Subscriber's intention regarding the Group

It is noted that, the Subscriber intends to become a controlling Shareholder by exercising the conversion rights under the Convertible Bonds to hold at least 51% of the issued share capital of the Company and appoint a majority of the Directors to the Board, after completion of the Subscription.

As stated in the Letter from the Board, we understood that it is the intention of the Subscriber to continue the existing business of the Group and has no intention to terminate the continued employment of the employees of the Group upon completion of the Subscription Agreement. The Subscriber has no intention to introduce any change to the existing business of the Group including any redeployment of the fixed assets of the Group. The Subscriber and the Company do not have any agreement, arrangement, understanding, intention or negotiation (concluded or otherwise) about:

(a) any disposal, termination, and/or scaling-down of the existing businesses and major assets of the Group up to the Latest Practicable Date;

(b) any injection and/or acquisition of assets and/or business of the Group up to the Latest Practicable Date; and

(c) carrying out a principal business different from the Company's existing business within 24 months after completion of the Subscription.

We noted that the Subscriber is optimistic about the potential of the existing business the Group and considers that the Subscription will provide the Group with working capital to develop its existing business and the conversion of the Convertible Bonds will allow the Subscriber to benefit from the development of the existing business of the Group.

We concur with the view of the Board that the intentions of the Subscriber in respect of the Group and its employees will maintain the continuity of the existing business of the Group and are therefore in the interests of the Company and the Shareholders as a whole.

(iii) Principal terms of the Convertible Bonds

We have been advised that the principal terms of the Convertible Bonds are arrived at after arm's length negotiations between the Company and the Subscriber, which are summarised as follows:

Principal amount:	HK$40,000,000
Interest:	Nil
Maturity date:	30 months from the date of the issue of the relevant Convertible Bonds (the "**Maturity Date**")
Conversion Price:	The principal amount of the Convertible Bonds may be converted into New Shares of HK$0.10 each in the capital of the Company at the Conversion Price of HK$1.00 per Conversion Share, subject to adjustments for, amongst other things, consolidations or subdivisions of New Shares, capital distributions, bonus issues, rights issues and other usual events which may have a dilution effect on the Conversion Shares to be allotted and issued to the holder(s) of the Convertible Bonds upon the exercise of the conversion right attached to thereunder. The aggregate nominal value of 40,000,000 Conversion Shares is HK$4,000,000. The net initial Conversion Price (after deduction of all related expenses) is approximately HK$0.98 per Conversion Share.

Conversion Shares: Assuming that there is no new issue of Shares or New Shares except for the Conversion Shares and the Capital Reorganisation has become effective, based on the initial Conversion Price of HK$1.00 per Conversion Share, 40,000,000 Conversion Shares will be allotted and issued upon exercise of the conversion rights attached to the Convertible Bonds in full, which represent:

(i) approximately 304.83% of the issued share capital of the Company as at the date of the Announcement; and

(ii) approximately 75.30% of the issued share capital of the Company as to be enlarged by the allotment and issue of the Conversion Shares.

The Conversion Shares will rank pari passu in all respects among themselves and with other New Shares in issue on the date of allotment and issue.

- *Conversion Price*

It is noted that the initial Conversion Price of HK$1.00 per Conversion Share (subject to adjustments) was arrived at after arm's length negotiations between the Company and the Subscriber and represents:

(a) a discount of approximately 93.79% to the closing price of HK$16.10 per New Share as quoted on the Stock Exchange on 29 September 2011 (adjusted for and assuming completion of the Capital Reorganisation), being the last trading day immediately before the entering into of the Subscription Agreement;

(b) a discount of approximately 93.93% to the average of the closing prices per New Share of HK$16.48 as quoted on the Stock Exchange for the last five (5) trading days up to and including 29 September 2011 (adjusted for and assuming completion of the Capital Reorganisation), being the last trading day immediately before the entering into of the Subscription Agreement; and

(c) a premium of approximately 9.89% over the audited net asset value per New Share as at 31 December 2012 of approximately HK$0.91 (adjusted for and assuming completion of the Capital Reorganisation).

We have been advised by the Directors that the Conversion Price of the Conversion Shares was negotiated between the Subscriber and the Company on an arm's length basis having taken into account, among other things, the following factors:

(a) the uncertainties brought by series of events, in particular, (i) the resignation of former auditors and disclaimed opinions of current auditors; (ii) the findings of the Forensic Investigation Report may have indicated the ineffectiveness of the Company's internal control system; and (iii) past transactions may have involved criminal activities, which are under inspection by CCB, as stated in the section headed "I. Background of the Group" of this letter;

(b) the suspension of trading in the Shares since 30 September 2011; and

(c) the poor financial performance of the Group with liquidity problem as stated in the section headed "II. Financial information of the Group" of this letter.

Following the suspension of trading of the Shares, it is noted that the Company announced to voluntary wind up the major operating subsidiary of the Company, BSHK. We consider that it is not appropriate to evaluate the reasonableness of the Conversion Price by comparing with the closing price of the New Shares (adjusted for and assuming completion of the Capital Reorganisation) prior to suspension of trading, as the quoted price was almost two years ago and there have been changes to the board composition, business operations and financial conditions of the Group since then. The more meaningful comparison would be with the Company's financial result and position, which are net loss of approximately HK$7.7 per New Share for the year ended 30 June 2012 (adjusted for and assuming completion of the Capital Reorganisation) and net asset value of approximately HK$0.9 per New Share as at 31 December 2012 (adjusted for and assuming completion of the Capital Reorganisation) respectively.

As mentioned earlier, the Group has been loss-making for the two years ended 30 June 2011 and 2012 and hence, no profit is available for an analysis of the price-to-earnings ratio or yield rate. In order to assess the fairness and reasonableness of the Conversion Price, we therefore made reference from an analysis on the price-to-book ratio ("**P/B**") which is a commonly adopted benchmark in the valuation of companies. We have identified comparable companies engaged in similar business as that of the Group (the "**Industry Comparable(s)**") for an industry analysis, by applying selection criteria, including: (i) they are listed on the Stock Exchange; (ii) their market capitalisations are not more than HK$500 million, which we considered that their business and trading scales are more comparative to that of the Company (with reference to the Company's monthly closing market capitalisations, ranging from approximately HK$200 million to approximately HK$500 million, two years preceding the suspension of trading in the Shares on 30 September 2011); (iii) they have suffered net losses for the latest financial year and/or its preceding financial year, which we consider that their earning power are more comparative to that of the Company; and (iv) they have retained net assets attributable to shareholders for the latest published financial position.

We have identified the following Industry Comparables and consider that the list is exhaustive based on the selection criteria as set out above. However, we further consider that the trading conditions of the selected Industry Comparables may not be fully comparable with that of the Company, as the trading in the Shares has been prolonged suspended since 30 September 2011. Therefore, the comparison below is given for Shareholders' reference only. Details of the Industry Comparables are summarised as follows:

Company name	**Stock code**	**Principle business activities**	**Market capitalisation** *(Note 1)* *HK$ million*	**Net asset value** *(Note 3)* *HK$ million*	**P/B** *times*
Besunyen Holdings Company Limited	926.HK	Provision of therapeutic tea in China, development, production, sales and promotion of therapeutic tea and business of other health food products	486.5	1483.2	0.3
Longlife Group Holdings Limited	8037.HK	Manufacture, research and development and distribution of consumer cosmetic, health related products, capsules products, health supplement wine, dental materials and equipment in the PRC, trading of synthetic rubber and trading of securities in Hong Kong	201.6	106.5	1.9
Unlimited Creativity Holdings Limited	8079.HK	Money lending business, property investment, financial instruments and quoted shares investment in Hong Kong and retailing of beauty products and provision of beauty services, clinical services, in Hong Kong and Macau	62.9	264.0	0.2
Combest Holdings Limited	8190.HK	Manufacture and sales of functional healthcare bedroom and household products and other accessories, and manufacture and trading of OEM consumer electronic products and components	201.7	248.5	0.8
Sau San Tong Holdings Cayman Islands Limited	8200.HK	Provision of beauty and slimming services from slimming centres, distribution sales of cosmetic and skin care products and sale of health, beauty and related products	84.4	119.0	0.7
				P/B maximum	*1.9*
				P/B minimum	*0.2*
				P/B average	*0.8*

Company name	Stock code	Principle business activities	Market capitalisation (Note 1) HK$ million	Net asset value (Note 3) HK$ million	P/B times
The Company	**8176.HK**	**Development, distribution and marketing of personal care treatment products.**	**13.1** (Note 2)	**11.9** (Note 4)	**1.1**

Source: the website of the Stock Exchange

Notes:

1. For the Industry Comparables, the market capitalisation was calculated based on its closing price per share on 21 March 2013, i.e. the date of the Subscription Agreement.

2. For the Company, its market capitalisation was calculated based on the Conversion Price of HK$1.00 per Conversion Share and the total issued share capital of the Company on 21 March 2013, i.e. 13,122,000 New Shares, assuming that there is no new issue of Shares or New Shares except for the Conversion Shares and the Capital Reorganisation has become effective.

3. For the Industry Comparables, the net assets attributable to shareholders are derived from the respective latest published financial information.

4. For the Company, its net assets attributable to Shareholders are derived from the Interim Report.

Referring to the Interim Report, it is noted that the audited net asset value per New Share as at 31 December 2012 (adjusted for and assuming completion of the Capital Reorganisation) was approximately HK$0.9 and the P/B of the Company was approximately 1.1 times as at 31 December 2012. As demonstrated by the analysis presented above, the P/B of the Industry Comparables ranges from a low of approximately 0.2 times to a high of approximately 1.9 times, with the average figure being approximately 0.8 times. We noted that the P/B of the Company as at 31 December 2012 of approximately 1.1 times is higher than the average P/B of the Industry Comparables, which is relatively more favourable compared to the average of the Industry Comparables.

- *Interest rate*

We noted that as at the Latest Practicable Date, the HK$ best lending rate of the Hongkong and Shanghai Banking Corporation Limited is 5% per annum (the "**Best Lending Rate**"). Since the Best Lending Rate represents the fair cost of capital at which companies may obtain bank loans, the nil interest of the Convertible Bonds is favorable to the Company as it enables the Company to obtain capital without bearing interest burden (save for the costs associated with the issue of the Convertible Bonds).

In view of the factors discussed above and the current unfavourable operating and financial conditions of the Group, including but not limited to, (i) the prolonged suspension of trading in the Shares; (ii) the recurring net losses of the Group for the two years ended 30 June 2011 and 2012 and the nine months ended 31 March 2013; (iii) uncertainties brought by findings of the Forensic Investigation Report and inspections conducted by the CCB; and (iv) disclaimed opinions issued by the current auditors, we concur with the view of the Directors that the Subscription Agreement, of which the Conversion Price of HK$1.00 per Conversion Share (subject to adjustments) represented a premium of approximately 9.9% over the net asset value per New Share as at 31 December 2012, is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

V. Potential dilution to the shareholding of the Shareholders

As referred to the Letter from the Board, the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) after completion of the Capital Reorganisation but before the full exercise of the conversion rights attaching to the Convertible Bonds; and (iii) after completion of the Capital Reorganisation and the full exercise of the conversion rights attaching to the Convertible Bonds are as follows (assuming there being no other change in the share capital of the Company) (for illustration purposes only):

Shareholders	**At the Latest Practicable Date**		**After completion of the Capital Reorganisation but before the full exercise of the conversion rights attaching to the Convertible Bonds**		**After completion of the Capital Reorganisation and the full exercise of the conversion rights attaching to the Convertible Bonds** *(Note 3)*	
	No. of existing Shares	*approx. %*	*No. of New Shares*	*approx. %*	*No. of New Shares*	*approx. %*
The Directors						
Wang Xiaofei *(Note 1)*	230,400,000	17.56%	2,304,000	17.56%	2,304,000	4.34%
Du Juanhong *(Note 2)*	106,580,000	8.12%	1,065,800	8.12%	1,065,800	2.01%
Subscriber and parties acting in concert with it	—	—	—	—	40,000,000	75.30%
Public Shareholders	975,220,000	74.32%	9,752,200	74.32%	9,752,200	18.35%
Total	1,312,200,000	100.00%	13,122,000	100.00%	53,122,000	100.00%

Notes:

1. Mr. Wang Xiaofei is a substantial shareholder and an executive Director.

2. Mr. Du Juanhong is a non-executive Director.

3. For illustration purposes only. Pursuant to the terms of the Convertible Bonds, the conversion rights attaching to the Convertible Bonds may be exercised provided that the Company will maintain the public float in compliance with the GEM Listing Rules.

As illustrated in the above table, under the current structure of the Subscription and the transactions contemplated thereunder and the Whitewash Waiver, the shareholding of the existing Shareholders would be reduced from 100% to approximately 24.7% of the enlarged issued share capital of the Company upon the full exercise of the conversion rights attaching to the Convertible Bonds.

In order to assess the extent of dilution to the Shareholders, we have reviewed a number of transactions which involved the issue of convertible securities as that of the Company (the "**Comparable Transactions**") for analysis, by applying selection criteria, including: (i) companies undergoing the Comparable Transactions (the "**Comparable Companies**") are listed on the Stock Exchange and the Comparable Transactions are publicly disclosed by way of announcement and/or circular; (ii) the Comparable Transactions involved the issue of convertible bonds/notes/preference shares (except for three involving open offers) for two years prior to the date of the Announcement; and (iii) trading of shares of the Comparable Companies were prolonged suspended prior to the date of the respective announcement (i.e. more than three months). We have identified seven Comparable Companies and consider that the following list is exhaustive based on the selection criteria as set out above. The summaries of the Comparable Transactions and the respective dilution to the existing shareholders of the Comparable Companies are set forth below:

Company name	Stock code	Date of announcement	Equity fund raising activity(ies)	Maximum dilution of shareholdings of the existing shareholders: As at the date of announcement (*approx. %*)	Maximum dilution of shareholdings of the existing shareholders: Upon completion of equity fund raising activity(ies) and the full conversion of the convertible bonds/notes (*approx. %*)	Suspension period prior to the date of announcement
Asia Telemedia Limited	376.HK	27-May-11	Subscription of new shares and convertible notes	100% to	10.0%	Since 18 Mar 2008
China Packaging Group Company Limited	572.HK	4-Jul-11	Subscription of new shares, preference shares and convertible notes, grant of options and bonus issue	100% to	8.0%	Since 28 Apr 2009

Company name	Stock code	Date of announcement	Equity fund raising activity(ies)	Maximum dilution of shareholdings of the existing shareholders: As at the date of announcement *(approx. %)*	Upon completion of equity fund raising activity(ies) and the full conversion of the convertible bonds/notes *(approx. %)*	Suspension period prior to the date of announcement
China Medical and Bio Science Limited	8120.HK	13-Jul-11	Subscription of new shares and convertible notes	100% to	8.1%	Since 28 Oct 2008
Ocean Grand Holdings Limited	1220.HK	8-Aug-11	Open offer, subscription of new shares and convertible preference shares	100% to	14.3% *(Note)*	Since 17 Jul 2006
Smart Union Group (Holdings) Limited	2700.HK	15-Jun-11	Subscription of new shares and placing of shares and convertible bonds	100% to	8.0%	Since 15 Oct 2008
Sunlink International Holdings Limited	2336.HK	11-Nov-11	Open offer, subscription of new shares, issue of creditors shares and creditors convertible bonds	100% to	25.2% *(Note)*	Since 2 Dec 2008
Tack Fat Group International Limited	928.HK	2-Jun-11	Open offer, issue of investor convertible bonds and creditors convertible bonds and issue shares and repurchase shares	100% to	56.0% *(Note)*	Since 30 Jul 2008
			Maximum dilution effect			
			high-end	*100% to*	*56.0%*	
			low-end	*100% to*	*8.0%*	
			average	*100% to*	*18.5%*	
The Company	**8176.HK**	**21-Mar-13**	**Subscription for Convertible Bonds**	**100% to**	**24.7%**	**Since 30 Sep 2011**

Source: the website of the Stock Exchange

Note: Assuming all the existing shareholders of the Comparable Companies take up their respective entitlements under the open offer in the respective Comparable Transactions.

As illustrated in the above table, maximum dilution impact to the shareholdings of the existing shareholders of the Comparable Companies were ranged from approximately 8.0% to 56.0% with an average of 18.5%, immediately following the completion of the respective equity fund raising activities and the full conversion of the convertible securities. We noted that, upon the completion of the Capital Reorganisation and the full conversion of the Convertible Bonds, the shareholding of the existing Shareholders would be diluted to approximately 24.7% of the enlarged issued share capital of the Company, of which the dilution effect brought to the existing Shareholders is less than the average of maximum dilution arising by the Comparable Transactions. Given (i) the current financial difficulties of the Group; (ii) the feasibility of other fund raising alternatives as discussed in the later section headed "VIII. Financing alternatives available to the Group" of this letter; (iii) the completion of the Subscription Agreement is one of the conditions precedent of the Loan Agreement, both of which will provide general working capital to the Group for future development and are conditions for the Company to continue operating as a going concern basis; and (iv) the Convertible Bonds will not be entitled to interest and therefore will not increase the interest burden of the Company, we concur with the Directors' view that the extent of dilution, as a result of the Subscription and the transactions contemplated thereunder and the Whitewash Waiver, is acceptable so far as the Independent Shareholders are concerned.

VI. Whitewash Waiver

The Subscriber, its ultimate beneficial owner and parties acting in concert with any of them will be interested in 40,000,000 New Shares, representing 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, assuming the Capital Reorganisation takes effect and no further Shares or New Shares are issued or repurchased by the Company.

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 New Shares (other than those New Shares already owned or agreed to be acquired by it) unless the Whitewash Waiver is obtained. We noted from the Letter from the Board that the Subscriber has made an application to the Executive for the Whitewash Waiver in respect of the Subscription and the exercise of the conversion rights attaching to the Convertible Bonds, which, if granted, will be subject to, among other things, approval by the Independent Shareholders in respect of the Subscription and the Whitewash Waiver at the EGM by way of a poll.

In the event that the Executive does not grant the Whitewash Waiver and/or the Independent Shareholders who are allowed to vote under the GEM Listing Rules and the Takeovers Code do not approve the grant of the Whitewash Waiver, the Subscription will not proceed.

In view of the benefit of the Subscription stated herein and the operating and financial difficulties of the Company discussed in the previous sections, we consider that the granting of the Whitewash Waiver is in the interest of the Company and its Shareholders as a whole.

VII. The Loan Agreement

On 21 March 2013 (after trading hours), the Company and the Lender entered into a Loan Agreement, pursuant to which, the Lender has conditionally agreed to grant an unsecured loan in the principal amount of HK$40,000,000 to the Company for a term of three (3) years from the date of drawdown.

(i) Reasons for and benefits of the Loan Agreement and use of proceeds

It is noted that the Loan Agreement is conditional upon, among other things, completion of the Subscription Agreement and approval from the Independent Shareholders at the EGM. Pursuant to the Loan Agreement, the loan can be fully drawn down on the next business day upon the fulfillment of all the conditions precedent set out in the Circular. We are advised by the Directors that the Loan Agreement provides additional funding to the Group for repayment the debts owing to Koffman and satisfy the general working capital needs for future development in the following manner:

(a) if the Company is able to recover the New Balance of HK$34,627,500 from Mr. Shum Yeung, the Company will apply the recovered sum to partly settle the outstanding debts owing to Koffman and use part of the net proceeds from the loan to settle the remaining balance. The remaining net proceeds from the loan will be used as general working capital of the Group including the capital required for the proposed development of the "Evidens de Beauté" distribution business in China, Taiwan and Macau; or

(b) if the Company is unable to recover the New Balance of HK$34,627,500 from Mr. Shum Yeung, HK$20 million net proceeds from the loan will be used as general working capital of the Group including the capital required for the proposed development of the "Evidens de Beauté" distribution business in China, Taiwan and Macau and the remaining balance of the net proceeds will be used to settle the outstanding debts owing to Koffman.

It is noted that Koffman has provided loan facilities up to HK$50 million to the Company at the interest rate of 12% per annum. As at the Latest Practicable Date, the Company was indebted to Koffman in the sum of approximately HK$40.8 million under such loan facilities.

As aforementioned under the section headed "III. Reasons for the issue of Convertible Bonds and use of proceeds", we agree with the Company that it is reasonable to apply the net proceeds from the Loan Agreement to discharge its outstanding indebtedness owing to Koffman, in particular, (i) insufficient funds of the Group to fulfill the approaching payment obligation; (ii) the repetitive extension of repayment and near maturity date; and (iii) reduction of financial burden with lower interest rate at 5% per annum of the loan under the Loan Agreement comparing with 12% per annum of the debts owing to Koffman.

Further, we are of the view that it is reasonable to apply the remaining balance of the net proceeds from the Loan Agreement, after repayment of the outstanding debts owing to Koffman, as the general working capital of the Group including the capital required for the proposed development of the "Evidens de Beauté" distribution business in China, Taiwan and Macau, given that (i) the insufficient working capital of the Group as aforementioned under the paragraph headed "Necessity of additional funds for general working capital and future development" in section II of this letter; (ii) the working capital needs for the Group's future development in particular, its expansion plan in China, Taiwan and Macau, as stated in the paragraph headed "The future development plan of the Group" in section II of this letter; and (iii) the prospect of skincare industry, particularly the Asia Pacific region, as discussed under the paragraph headed "Industry overview" in section II of this letter.

(ii) Information of the Lender

The Lender, being Hong Kong Builders Finance Limited, is an indirect wholly-owned subsidiary of the Subscriber Holding. The Lender is a money lender licensed in Hong Kong under the provisions of the Money Lenders Ordinance. The Lender conducts money lending business in Hong Kong though the provision of secured and unsecured loans to customers.

The Lender and the Subscriber Holding are third parties independent of the Company and its connected person.

(iii) The principal terms of the Loan Agreement

We are advised by the Directors that the terms of the Loan Agreement are on normal commercial terms and determined after arm's length negotiations between the Company and the Lender, which are summarised as below:

Date:	21 March 2013
Principal amount of the loan:	HK$40,000,000
Interest rate:	5% per annum
Security:	No security will be provided by the Company or any other party under the Loan Agreement
Term:	Three years commencing from the date of drawdown

- *Interest rate*

The Directors advised us that the interest rate of the Loan Agreement was determined by the Lender with reference to the prevailing market rate and the lending assessment in accordance with its daily operation standards. Having considered that (i) money lending is the ordinary course of business of the Lender with proper licence in Hong Kong; (ii) the Best Lending Rate is

5% per annum as at the Latest Practicable Date; and (iii) the current interest rate of the Group's borrowings are at 12% per annum, we therefore consider that the interest rate of the Loan Agreement at 5% per annum is justifiable.

- *Maturity*

The maturity of the Loan Agreement is three years commencing from the date of drawdown. In order to assess the fairness and reasonableness on the maturity of the Loan Agreement, we have to consider the repayment capability for such loans by the Company upon the maturity of the Loan Agreement. We noted from the Directors that the loan will be fully drawn down on the next Business Day upon the fulfillment of all conditions precedent contained in the Loan Agreement. The timely repayment of the aforesaid loan will be dependent on the profitability of the Company in future years.

Referring to the future development of the Group as mentioned in the section headed "III. Reasons for the issue of Convertible Bonds and use of proceeds" above, we consider that the Company may face certain risks which will affect its future profitability, including but not limited to:

(a) the brand "Evidens de Beauté" is new to consumers in Hong Kong and it takes time and resources for brand building;

(b) the expansion plan of the Company in China, Taiwan and Macau cannot be assured at the moment;

(c) dependence on the Company's ability to manage and expand the distribution network; and

(d) the brand of "Evidens de Beauté" is positioned as luxury skincare products, but consumer spending in luxury goods may be easily affected by the state of economy as a whole.

Having considered that (i) the industry prospects for the premium skincare products as stated in the paragraph headed "Industry overview" in section II of this letter; (ii) the Directors advised that the Company is optimistic on the recovery of all the outstanding amount owing by Mr. Shum Yeung, which has been stated in the section headed "Appendix II — Litigation" of the Circular; and (iii) the working capital forecast of the Group for a period of 18 months, we agree with the Directors' view that the Company will be able to repay the loan in a timely manner.

In view of the factors discussed above and no security will need to be provided by the Company or any other party under the Loan Agreement, we concur with the Directors' view that the terms and conditions of the Loan Agreement are fair and reasonable and the entering into the Loan Agreement is in the interests of the Company and the Shareholders as a whole.

VIII. Financing alternatives available to the Group

It is noted that the Company did not conduct any fund raising activities during the past twelve months. We therefore discussed with the Directors on any possible financing alternatives available to the Company and understood that the Board considered that it was not appropriate for the Company to conduct any equity fund raising activities during the process of the Investigation, as the Board was not yet fully aware and understood the reasons for all the issues raised by the Company's former auditors and the audit qualifications made by the Company's current auditors. As soon as the Forensic Investigation Report was issued on 28 September 2012, the Board has taken immediate actions to assess the seriousness and reported the findings to the Stock Exchange and CCB. Hence, the Group is currently cooperating with the inspection conducted by CCB. It is noted that the Company shall treat the process of CCB's inspection strictly confidential and avoid disseminating any relevant information without their prior consent. The Directors consider that it is hardly able to invite potential investors and/or securities houses to conduct due diligence for the purpose of any fund raising activities, including but not limited to, placing of new shares, rights issue and open offer.

Further, based on the Group's operating condition as stated in the sections headed "I. Background of the Group" and "II. Financial information of the Group" above in this letter, it appears to us that the Group is facing significant uncertainties at the current stage, in particular, (i) prolonged suspension of trading; (ii) findings of the Forensic Investigation Report; (iii) under inspection process conducted by CCB; (iv) disclaimer of opinions issued by independent auditors for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012; (v) net losses of approximately HK$100.4 million and HK$13.6 million for the year ended 30 June 2012 and the six months ended 31 December 2012 respectively; and (vi) remaining cash position of approximately HK$301,000 as at 31 December 2012. We therefore concur with the view of the Directors that it is hardly possible for the Company to attract any investor, existing Shareholder and/or borrower in other equity fund raising.

We further considered that the pro-rata equity financing, including rights issue and open offer, would request participating Shareholders to bear a financial burden, who would then be subject to significant uncertainty under the current operating conditions of the Group as mentioned above. Therefore, we agree with the Directors that the Subscription Agreement and the Loan Agreement, which will not create additional financial burden to existing Shareholders, are in the interest of the Shareholders.

We have also been advised by the Directors that any fund raising proposal through bank borrowings has been facing the same difficulties as above. Given the accumulated losses of the Group in the preceding financial years, the Directors advised that the Company was not able to secure meaningful bank borrowings with favourable terms. In view that the Loan Agreement is subject to various conditions, among others, the completion of the Subscription Agreement, we are advised by the Directors that the Loan Agreement should not be treated as a standalone financing method and hence it would not be a financing alternative to the issue of the Convertible Bonds. Therefore, given the current outstanding borrowings of the Company are carrying an interest rate at 12% per annum with maturity date on 31 May 2013, we agree with the Directors that the Convertible Bonds with nil interest rate and the Loan Agreement with 5% interest rate per annum are in the interest of the Company and the Shareholders as a whole.

IX. Financial impacts of the Subscription Agreement and the Loan Agreement

(i) Net asset value

As stated in the Interim Report, the audited consolidated net assets of the Group were approximately HK$11.9 million as at 31 December 2012.

We are advised by the Directors that the Subscription will constitute an increase in cash, by the amount of the net proceeds from the Subscription and the Convertible Bonds will consist of a liability component and an equity component in the Group's consolidated financial statements when it is recognised. It is noted that the allocation of liability and equity components could not be ascertained at the current stage, until reliable estimations of the Convertible Bonds' values could be made at the issue date of the Convertible Bonds. When there is equity components assigned, the net effect of the aforesaid will be an increase in the Group's net assets, which is represented by the corresponding increase in the equity portion of the Convertible Bonds, and hence an increase in the net asset value per New Share (assuming completion of the Capital Reorganisation but before the exercise of the conversion rights attaching to the Convertible Bonds).

In the event that the conversion rights attaching to the Convertible Bonds are to be exercised, we are advised by the Directors that it will constitute an increase in the Group's total equity, with the value of Conversion Shares being converted at Conversion Price deducted by the relevant amount of equity components of the converted Convertible Bonds, and simultaneously a decrease in the Group's liabilities with an approximate amount. Therefore, the Group's net asset value is expected to increase in such event. However, it is also advised that the exact results of financial impacts to the Group's net asset value per New Share could not be ascertained until reliable estimations have been made on the exact number of New Shares to be issued and the value of the Convertible Bonds to be converted, upon exercise of the conversion rights attaching to the Convertible Bonds.

In accordance with the Letter from the Board, we are advised by the Directors that, no matter the Company is able to recover the New Balance from Mr. Shum Yeung or not, the net effect from the Loan Agreement will be an increase with the same amount in total assets and total liabilities of the Group simultaneously, which equals to the remaining portion of the loan after deducting the repayment amount for the partial outstanding debts owing to Koffman. Therefore, the Loan Agreement will not have any material impact on the Group's net asset value or the net asset value per New Share (assuming completion of the Capital Reorganisation but before the exercise of the conversion rights attaching to the Convertible Bonds).

(ii) Earnings

It is noted that the Convertible Bonds bear nil interest. The Directors therefore expected that the Subscription will not have any immediate impact on the Group's earnings or earnings per New Share (assuming completion of the Capital Reorganisation but before the exercise of the conversion rights attaching to the Convertible Bonds).

However, for the subsequent reporting periods, we are advised by the Directors that the liability portion of the Convertible Bonds will be carried at amortised cost using effective interest method, and the effective interest expenses of the Convertible Bonds will be charged to the Group's consolidated statement of profit or loss and other comprehensive income subsequent to the completion of the Subscription until the conversion of the Convertible Bonds in full or at the maturity date of the Convertible Bonds. As the carrying amounts of the Convertible Bonds on initial recognition will be recorded at its initial value, no gain or loss arises from the initial recognition to the components of the Convertible Bonds. Save for the re-measurement of the fair value of the liability component of the Convertible Bonds at the end of each financial year, no other gain or loss will be recognised in the Group's consolidated statement of profit or loss and other comprehensive income.

In the event that the conversion rights attaching to the Convertible Bonds are to be exercised, we are advised by the Directors that there may be an immaterial financial impacts to the Group's consolidated statement of profit or loss and other comprehensive income due to the difference between the fair value and the carrying value in the liability component of the Convertible Bonds being converted. However, it is noted that the Group's earnings per New Share will be negatively affected, due to the increase in the number of issued New Shares, upon exercise of the conversion rights attaching to the Convertible Bonds.

The loan in respect of the Loan Agreement carries interest rate at 5% per annum. As abovementioned, the current interest rate of the Group's borrowings, which represented the outstanding indebtedness due to Koffman, is at 12% per annum. We are advised by the Directors that a portion of the loan under the Loan Agreement is intended to repay partial outstanding indebtedness due to Koffman, which will therefore reduce the Group's interest expenses and in turn have a positive impact on the future earnings of the Group.

(iii) Gearing

As stated in the Interim Report, the Group had total assets of approximately HK$49.9 million and total borrowings of approximately HK$31.4 million as at 31 December 2012. The gearing ratio of the Group, being the ratio of total borrowings to total assets, was around 0.6 as at the same date.

As stated in the foregoing, the Subscription will increase the Group's total assets by the amount of net proceeds raised and the Convertible Bonds will constitute a liability component and equity component in the consolidated financial statements of the Group. However, the extent of the impact on gearing level of the Group could not been ascertained at the current stage.

In accordance with the Letter from the Board, we are advised by the Directors that, no matter the Company is able to recover the New Balance from Mr. Shum Yeung or not, the net effect from the Loan Agreement will be an increase with the same amount in total assets and total borrowings of the Group simultaneously, which equals to the remaining portion of the loan after deducting the repayment amount for the partial outstanding debts owing to Koffman. As the gearing ratio of the Group as at 31 December 2012 is less than one, the increase with the same amount in total assets (as denominator) and total borrowings (as numerator) will have a negative impact on the Group's gearing ratio.

(iv) Liquidity and working capital

As stated in the Interim Report, the Group had bank balances and cash of approximately HK$301,000 as at 31 December 2012.

Immediately upon the Subscription, the Company will raise net proceeds of approximately HK$39.0 million, which are intended to be applied to the general working capital for the future development of the Group. The net proceeds from the Subscription would increase the cash position of the Group and hence increase current assets, while current liabilities will remain the same. As advised by the Directors, the current ratio of the Group, being the ratio of current assets to current liabilities, will be improved accordingly and the Subscription will therefore have a positive impact on the Group's liquidity and working capital position.

As discussed in the above, no matter the Company is able to recover the New Balance from Mr. Shum Yeung or not, the net effect from the Loan Agreement will be an increase with the same amount in total assets and total liabilities of the Group simultaneously, which equals to the remaining portion of the loan after deducting the repayment amount for the partial outstanding debts to owing Koffman. It is noted that the increase in total assets will be recognised in current assets of the Group and used as general working capital, while the increase in total liabilities will consist of a decrease in current liabilities of the Group with the repayment amount for the partial outstanding debts owing to Koffman and an increase in non-current liabilities of the Group with the net proceeds of the loan from the Loan Agreement. Therefore, the current ratio of the Group will be improved and the Loan Agreement will also have a positive impact on the Group's liquidity and working capital position.

It should be noted that the above-mentioned analyses are for illustrative purpose only and does not purport to represent how the financial positions of the Group will be upon the completion of the issue of the Convertible Bonds and the Loan Agreement.

OPINION AND RECOMMENDATION

Having considered the abovementioned principal factors and reasons, we consider that the Subscription Agreement and the transactions contemplated thereunder is in the interests of the Company and the Shareholders as a whole and the terms thereof are fair and reasonable so far as the Company and the Independent Shareholders are concerned. In terms of the Whitewash Waiver, being a condition precedent to the Subscription Agreement, we consider that the grant of the Whitewash Waiver is fair and reasonable so far as the Company and the Independent Shareholders are concerned. Referring to the Loan Agreement and the transactions contemplated thereunder, we consider that the terms thereof are on normal commercial terms and are fair and reasonable so far as the Company and the Independent Shareholders are concerned, and hence are in the interests of the Company and the Shareholders as a whole. We therefore advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM approving the Subscription Agreement and the transactions contemplated thereunder, the Whitewash Waiver and the Loan Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
NEW SPRING CAPITAL LIMITED
Paul Lui
Managing Director

1. SUMMARY OF PUBLISHED FINANCIAL INFORMATION

The following is a summary of the consolidated financial information of the Group for the three years ended 30 June 2012, the six months ended 31 December 2012 and the nine months ended 31 March 2013, details of which were extracted from the annual reports of the Company for each of the years ended 30 June 2010, 2011 and 2012, the interim report of the Company for the six months ended 31 December 2012 and the third quarterly report of the Company for the nine months ended 31 March 2013.

The consolidated financial statement for the year ended 30 June 2010 was audited by HLM & Co. and an unqualified opinion was issued. The consolidated financial statements for the years ended 30 June 2011 and 2012 and the condensed consolidated interim financial statements for the six months ended 31 December 2012 were audited by HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants. Disclaimer of opinions were issued by the auditors of the Company in relation to each of the financial years and the six months ended.

For each of the three years ended 30 June 2012, the six months ended 31 December 2012 and the nine months ended 31 March 2013, there were no exceptional items because of size, nature or incidence and no dividend was declared or paid.

CONSOLIDATES STATEMENT OF COMPREHENSIVE INCOME

	For the nine months ended 31 March 2013 *HK$'000* (Unaudited)	For the six months ended 31 December 2012 *HK$'000* (Audited)	For the year ended 30 June 2012 *HK$'000* (Audited)	2011 *HK$'000* (Audited)	2010 *HK$'000* (Audited)
Continuing operations					
Turnover	5,406	4,394	702	49,064	99,662
Cost of sales	(9,123)	(6,779)	(1,213)	(37,475)	(32,599)
Gross (loss) profit	(3,717)	(2,385)	(511)	11,589	67,063
Other revenue	1,740	2	987	312	477
Selling and distribution costs	(1,032)	(649)	(2)	(7,757)	(16,090)
Administrative expenses	(13,749)	(8,891)	(7,809)	(16,754)	(13,803)
Impairment loss recognised in respect of intangible asset	—	—	(7,488)	—	—
Impairment loss recognised in respect of trade receivables	—	—	—	(117,525)	(111)
Impairment loss recognised in respect of deposits, prepayments and other receivables	(90)	(90)	(240,593)	(52,135)	—
Gain (loss) on de-consolidation of subsidiaries	—	—	155,547	(135)	—
Finance costs	(2,526)	(1,545)	(520)	(7,043)	(3,025)
(Loss) profit before tax	(19,374)	(13,558)	(100,389)	(189,448)	34,511
Income tax expense	—	—	—	(6)	(7,398)
(Loss) profit for the period/year from continuing operations	(19,374)	(13,558)	(100,389)	(189,454)	27,113

	For the nine months ended 31 March 2013 *HK$'000* (Unaudited)	For the six months ended 31 December 2012 *HK$'000* (Audited)	For the year ended 30 June 2012 *HK$'000* (Audited)	2011 *HK$'000* (Audited)	2010 *HK$'000* (Audited)
Discontinued operations					
Profit for the period/year from discontinued operations	—	—	—	3,774	—
(Loss) profit for the period/year	(19,374)	(13,558)	(100,389)	(185,680)	27,113
Other comprehensive income					
Exchange differences arising on translation of foreign operations	—	—	—	1	4
Release of translation reserve upon de-consolidation of subsidiaries	—	—	4	16	—
Other comprehensive income for the period/year	—	—	4	17	4
Total comprehensive (expenses)income for the period/year	(19,374)	(13,558)	(100,385)	(185,663)	27,117
(Loss) profit for the period/year attributable to:					
Owners of the Company	(19,374)	(13,558)	(100,389)	(185,680)	27,113
Total comprehensive (expense) income for the period/year attributable to:					
Owners of the Company	(19,374)	(13,558)	(100,385)	(185,663)	27,117
(Loss) earning per share (HK cents)					
From continuing and discontinued operations					
— Basic	—	—	(7.71)	(22.09)	5.41
— Diluted	—	—	(7.71)	(22.09)	2.46
From continuing operations					
— Basic and diluted	(1.48)	(1.03)	(7.71)	(22.53)	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	For the six months ended 31 December	For the year ended 30 June		
	2012	**2012**	**2011**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Audited)	(Audited)	(Audited)	(Audited)
Non-current assets				
Intangible asset	—	—	7,488	8,424
Property, plant and equipment	7,014	3,156	2,138	2,676
	7,014	3,156	9,626	11,100
Current assets				
Inventories	1,025	1,943	975	450
Trade receivables	99	—	3,158	83,740
Deposits, prepayments and other receivables	41,493	52,272	119,015	181,114
Bank balances and cash	301	308	1,436	1,752
	42,918	54,523	124,584	267,056
Current liabilities				
Amount due to a former director	64	64	219	115
Amounts due to related companies	—	—	2,033	4,963
Amount due a related party	—	—	385	123
Deposits from customers	55	551	4,446	2,915
Trade payables	7	—	—	—
Accruals and other payables	5,984	11,451	9,763	3,084
Obligation under financial leases	110	105	—	—
Other borrowing	31,4301	19,586	2,000	—
Provision for taxation	—	—	5,594	7,403
	37,623	31,757	24,440	18,603
Net current assets	5,295	22,766	100,144	248,453
Total assets less current liabilities	12,309	25,922	109,770	259,553
Non-current liability				
Convertible bonds	—	—	—	71,688
Obligation under financial lease	394	449	—	—
	—	449	—	71,688
Net assets	11,915	25,473	109,770	187,865

	For the six months ended 31 December 2012 *HK$'000* (Audited)	For the year ended 30 June 2012 *HK$'000* (Audited)	2011 *HK$'000* (Audited)	2010 *HK$'000* (Audited)
Equity attributable to owners of the Company				
Share capital	131,220	131,220	120,220	52,220
Reserves	(119,305)	(105,747)	(10,450)	135,645
Total equity	11,915	25,473	109,770	187,865

2. AUDITORS' REPORT FOR THE YEAR ENDED 30 JUNE 2011

The following paragraphs extracted from the independent auditors' report on the Group's Financial statement for the year ended 30 June 2011.

BASIS FOR DISCLAIMER OF OPINION

(1) Scope limitation — Inventories

We were not appointed as auditors of the Company until after 30 June 2011 and thus did not observe the counting of the Group's physical inventories at the beginning and end of the year. We were unable to satisfy ourselves by alternative means concerning the inventory quantities held at 30 June 2010 and 30 June 2011 which are stated in the consolidated statement of financial position at approximately HK$450,000 and HK$975,000, respectively. As a result, we were unable to determine whether any adjustments might have been found necessary in respect of recorded and unrecorded inventories, and the elements making up the consolidated statement of comprehensive income and the consolidated statement of financial position.

(2) Scope limitation — Revenue and trade receivables

(a) Included in the consolidated statement of comprehensive income for the year ended 30 June 2011 was revenue of approximately HK$42,691,000 arising from sales to a distributor of the Group (the "**Distributor**"), revenue of approximately HK$2,107,000 arising from sales to a customer of the Group ("**Customer A**") and revenue of approximately HK$1,007,000 arising from sales to another customer of the Group ("**Customer B**"). Included in "**Trade receivables**" in the consolidated statement of financial position at 30 June 2011 was trade receivable of approximately HK$114,411,000 due from the Distributor (the "**Distributor Receivable**"), trade receivable of approximately HK$2,107,000 due from Customer A (the "**Customer A Receivable**") and trade receivable of approximately HK$1,007,000 due from Customer B (the "**Customer B Receivable**"), all of which remained outstanding up to the date of this report. Impairment losses in respect of the entire amounts of the Distributor Receivable, Customer A Receivable, Customer B Receivable at 30 June 2011 were recognised in profit or loss during the year ended 30 June 2011. We were unable to obtain sufficient appropriate audit evidence regarding the above sales to the Distributor, Customer A and Customer B and the Distributor Receivable, Customer A Receivable and Customer B Receivable because: (i) there was inadequate documentary evidence available for us to verify the identities of the Distributor, Customer A and Customer B and the delivery of the related products; (ii) we were unable to carry out any effective confirmation procedures in relation to the above sales to the Distributor, Customer A and Customer B and the Distributor Receivables, Customer A Receivable and Customer B Receivable for the purpose of our audit; (iii) there was inadequate documentary evidence available for us to satisfy ourselves as to whether the impairment losses recognised in respect of the Distributor Receivable, Customer A Receivable and Customer B Receivable were appropriate; and (iv) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the above sales transactions and the Distributor Receivable, Customer A Receivable and Customer B Receivable were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the Group's net assets at 30 June 2011, its revenue and consequently net loss for the year ended 30 June 2011, and the related disclosures thereof in the consolidated financial statements.

(b) Included in the consolidated statement of comprehensive income for the year ended 30 June 2011 was revenue of approximately HK$3,054,000 arising from sales to another customer of the Group ("**Customer C**"). Included in "**Trade receivables**" in the consolidated statement of financial position at 30 June 2011 was trade receivable of approximately HK$3,054,000 due from Customer C (the "**Customer C Receivable**"). We were unable to obtain sufficient appropriate audit evidence regarding the above sales to Customer C and the Customer C Receivable because: (i) there was inadequate documentary evidence available for us to verify the identity of Customer C and the delivery of the related products; (ii) we were unable to carry out any effective confirmation procedures in relation to the above sales to Customer C and the Customer C Receivable for the purpose of our audit; and (iii) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the above sales transactions and the Customer C Receivable were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the Group's net assets at 30 June 2011, its revenue and consequently net loss for the year ended 30 June 2011, and the related disclosures thereof in the consolidated financial statements.

(3) Scope limitation — Deposits and advances in relation to the formation of a joint venture

(a) Included in "**Deposits, prepayments and other receivables**" in the consolidated statement of financial position at 30 June 2010 and 30 June 2011 were refundable deposits totaling HK$25,000,000 (the "**JV Deposits**") which were paid by the Group to the other joint venturer during the year ended 30 June 2010 in relation to the formation of the Group's joint venture, namely 北京中成金豐醫療科技有限公司 (the "**JV**"). The results of our searches made with public registry indicated that the other joint venturer was wholly owned by the sole shareholder of the Distributor. An impairment loss in respect of the entire amount of the JV Deposits at 30 June 2011 was recognised in profit or loss during the year ended 30 June 2011.

(b) Also included in "**Deposits, prepayments and other receivables**" in the consolidated statement of financial position at 30 June 2010 and 30 June 2011 was an advance of HK$1,000,000 paid by the Group to an entity during the year ended 30 June 2010 for the purpose of settlement of preliminary expenses to be incurred in relation to the formation of the JV (the "**JV Expense Advance**"). An impairment loss in respect of the entire amount of the JV Expense Advance was recognised in profit or loss during the year ended 30 June 2011.

We were unable to obtain sufficient appropriate audit evidence regarding the JV Deposits and the JV Expense Advance because (i) there was inadequate documentary evidence available for us to verify the manner in which the JV Deposits and the JV Expense Advance had been utilised; (ii) we were unable to carry out any effective confirmation procedures in relation to the JV Deposits and the JV Expense Advance for the purpose of our audit; (iii) there was inadequate documentary evidence available for us to satisfy ourselves as to whether the impairment losses recognised in respect of the JV Deposits and the JV Expense Advance were appropriate; and (iv) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the JV Deposits and the JV Expense Advance were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the Group's net assets at 30 June 2011, its net loss for the year ended 30 June 2011, and the related disclosures thereof in the consolidated financial statements.

(4) Scope limitation — Deposit for License Fee

Included in "**Deposits, prepayments and other receivables**" in the consolidated statements of financial position at 30 June 2010 and 30 June 2011 was a deposit for license fee of HK$4,000,000 which remained outstanding up to the date of this report (the "**License Fee Deposit**"). An impairment loss in respect of the entire amount of the License Fee Deposit at 30 June 2011 was recognised in profit or loss during the year ended 30 June 2011. We were unable to obtain sufficient appropriate audit evidence regarding the License Fee Deposit because (i) there was inadequate documentary evidence available for us to verify the identity of recipient of the License Fee Deposit; (ii) there was inadequate documentary evidence available for us to verify the manner in which the License Fee Deposit had been utilised; (iii) we were unable to carry out any effective confirmation procedures in relation to the License Fee Deposit for the purpose of our audit; (iv) there was inadequate documentary evidence available for us to satisfy ourselves as to whether the impairment loss recognised in respect of the License Fee Deposit was appropriate; and (v) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the License Fee Deposit was free from material misstatement. Any adjustments that might have been found necessary may have an effect on the Group's net assets at 30 June 2011, its net loss for the year ended 30 June 2011, and the related disclosures thereof in the consolidated financial statements.

(5) Scope limitation — Deposit paid to a contractor

Included in "**Deposits, prepayments and other receivables**" in the consolidated statement of financial position at 30 June 2011 was a deposit of HK$2,500,000 paid by the Group to a contractor for decoration of a training centre proposed to be operated by the Group in the name of 廣州市花都區富麗花譜職業培訓學校 (the "**Contractor Deposit**"). An impairment loss in respect of the entire amount of the Contractor Deposit at 30 June 2011 was recognised in profit or loss during the year ended 30 June 2011. We were unable to obtain sufficient appropriate audit evidence regarding the Contractor Deposit because (i) there was inadequate documentary evidence available for us to verify the identity of the contractor and the manner in which the Contractor Deposit had been utilised; (ii) we were unable to carry out any effective confirmation procedures in relation to the Contractor Deposit for the purpose of our audit; (iii) there was inadequate documentary evidence available for us to satisfy ourselves as to whether the impairment loss recognised in respect of the Contractor Deposit was appropriate; and (iv) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the Contractor Deposit was free from material misstatement. Any adjustments that might have been found necessary may have an effect on the Group's net assets at 30 June 2011, its net loss for the year ended 30 Jun 2011, and the related disclosures thereof in the consolidated financial statements.

(6) Scope limitation — Prepayments to suppliers

(a) Included in "**Deposits, prepayments and other receivables**" in the consolidated statement of financial position at 30 June 2011 were prepayments totaling approximately HK$12,050,000 paid by the Group to four suppliers for purchases of equipment and inventories (the "**2011 Suppliers' Prepayment**"). An impairment loss in respect of the entire amount of the 2011 Suppliers' Prepayment at 30 June 2011 was recognised in profit or loss during the year ended 30 June 2011. We were unable to obtain sufficient appropriate audit evidence regarding the 2011 Suppliers' Prepayment because (i) there was inadequate documentary evidence available for us to verify the identities of these suppliers and the manner in which the 2011 Suppliers' Prepayment had been utilised; (ii) there was no satisfactory explanation and sufficient appropriate audit evidence provided to us to explain and verify the reason for the cash cheques issued by the Group totaling HK$5,215,000 for the settlement of the 2011 Suppliers' Prepayment; (iii) there was no satisfactory explanation and sufficient appropriate audit evidence provided to us to explain and verify the reason for the cash paid by the Group totaling HK$6,835,000 being transacted through intermediates for the settlement of the 2011 Suppliers' Prepayment; (iv) we were unable to carry out any effective confirmation procedures in relation to the 2011 Suppliers' Prepayment for the purpose of our audit; (v) there was inadequate documentary evidence available for us to satisfy ourselves as to whether the impairment loss recognised in respect of the 2011 Suppliers' Prepayment was appropriate; and (vi) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the 2011 Suppliers' Prepayment were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the Group's net assets at 30 June 2011, its net loss for the year ended 30 June 2011, and the related disclosures thereof in the consolidated financial statements.

(b) Included in "**Deposits, prepayments and other receivables**" in the consolidated statement of financial position at 30 June 2010 were prepayments totaling approximately HK$27,016,000 paid by the Group to 3 suppliers (the "**2010 Suppliers**") for purchases of inventories and prepayment of packaging costs, of which an amount of approximately HK$2,068,000 and HK$1,360,000 were recognised as "**Cost of Sales**" and expensed as selling and distribution costs respectively for the year ended 30 June 2011. The Group further paid an amount of HK$550,000 to the 2010 Suppliers during the year and the balance of approximately HK$24,138,000 remained in prepayments at 30 June 2011 (the "**2010 Suppliers' Prepayments**"). Subsequent to the year ended date, an amount of approximately HK$60,000 have been settled by delivery of inventories up to the date of this report. We were unable to obtain sufficient appropriate audit evidence regarding the 2010 Suppliers' Prepayments because (i) there was inadequate documentary evidence available for us to verify the identities of the 2010 Suppliers and the manner in which the 2010 Suppliers' Prepayments had been utilised; (ii) there was no satisfactory explanation and sufficient appropriate audit evidence provided to us to explain and verify the reason for the cash cheques issued by the Group totaling HK$400,000 for the settlement of the 2010 Suppliers' Prepayments; (iii) there was no satisfactory explanation and sufficient appropriate audit evidence provided to us to explain and verify the reason for the cash paid by the Group totaling HK$150,000 being transacted through an intermediate for the settlement of the 2010 Suppliers' Prepayments; (iv) we were unable to carry out any effective confirmation procedures in relation to the 2010 Suppliers' Prepayments for the purpose of our audit; (v) there was no sufficient appropriate audit evidence to assess whether the 2010 Suppliers' Prepayments could be recovered in full or to determine the amount of impairment and (vi) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the 2010 Suppliers' Prepayments were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the Group's net assets at 30 June 2011, its net loss for the year ended 30 June 2011, and the related disclosures thereof in the consolidated financial statements.

(7) Scope limitation — Prepayment to a law firm

Included in "**Deposits, prepayments and other receivables**" in the consolidated statement of financial position at 30 June 2010 and 30 June 2011 was prepayment of approximately HK$1,050,000 paid by the Group to a law firm in Hong Kong (the "**Legal Fee Prepayment**") in relation to legal fees incurred on behalf of two entities which appeared to be related to the Group. An impairment loss in respect of the entire amount of the Legal Fee Prepayment was recognised in profit or loss during the year ended 30 June 2011. We were unable to obtain sufficient appropriate audit evidence regarding the Legal Fee Prepayment because (i) there was inadequate documentary evidence available for us to verify the identity of this law firm and the manner in which the Legal Fee Prepayments had been utilised; (ii) we were unable to carry out any effective confirmation procedures in relation to the Legal Fee Prepayments for the purpose of our audit; (iii) there was inadequate documentary evidence available for us to satisfy ourselves as to whether the impairment loss recognised in respect of the Legal Fee Prepayment was appropriate; and (iv) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the Legal Fee Prepayment was free from material misstatement. Any adjustments that might have been found necessary may have an effect on the Group's net assets at 30 June 2011, its net loss for the year ended 30 June 2011, and the related disclosures thereof in the consolidated financial statements.

(8) Scope limitation — Prepayments to the Distributor

Included in "**Deposits, prepayments and other receivables**" in the consolidated statement of financial position at 30 June 2010 was prepayments of approximately HK$6,200,000 paid by the Group to the Distributor (the "**Distributor Prepayment**"), of which an amount of HK$4,800,000 was expensed as selling and distribution costs for the year ended 30 June 2011 and the balance of HK$1,400,000 remained in prepayments at 30 June 2011. An impairment loss in respect of the entire amount of the Distributor Prepayment amounting to HK$1,400,000 at 30 June 2011 was recognised in profit or loss during the year ended 30 June 2011. We were unable to obtain sufficient appropriate audit evidence regarding the Distributor Prepayment because (i) there was inadequate documentary evidence available for us to verify the identity of Distributor and the manner in which the Distributor Prepayments had been utilised; (ii) we were unable to carry out any effective confirmation procedures in relation to the Distributor Prepayments for the purpose of our audit; (iii) there was inadequate documentary evidence available for us to satisfy ourselves as to whether the impairment loss recognised in respect of the Distributor Prepayment was appropriate; and (iv) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the Distributor Prepayment was free from material misstatement. Any adjustments that might have been found necessary may have an effect on the Group's net assets at 30 June 2011, its net loss for the year ended 30 June 2011, and the related disclosures thereof in the consolidated financial statements.

(9) Scope limitation — Loan receivable

Included in "**Deposits, prepayments and other receivables**" in the consolidated statement of financial position at 30 June 2011 was loan receivable of HK$5,000,000 due from an entity unrelated to the Group (the "**Loan**"). An impairment loss in respect of the entire amount of the Loan at 30 June 2011 was recognised in profit or loss during the year ended 30 June 2011. We were unable to obtain sufficient appropriate audit evidence regarding the Loan because (i) there was inadequate documentary evidence available for us to verify the identity of this entity; (ii) we were unable to carry out any effective confirmation procedures in relation to the Loan for the purpose of our audit; (iii) there was inadequate documentary evidence available for us to satisfy ourselves as to whether the impairment loss recognised in respect of the Loan was appropriate; and (iv) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the Loan was free from material misstatement. Any adjustments that might have been found necessary may have an effect on the Group's net assets at 30 June 2011, its net loss for the year ended 30 June 2011, and the related disclosures thereof in the consolidated financial statements.

(10) Scope limitation — Deposits from customers

Included in "**Deposits from customers**" in the consolidated statement of financial position at 30 June 2011 were deposits from customers amounting to approximately HK$4,446,000. We were unable to obtain sufficient appropriate audit evidence regarding these deposits from customers because (i) there was inadequate documentary evidence available for us to verify the validity, accuracy and completeness of these deposits; and (ii) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether these deposits from customers were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the Group's net assets at 30 June 2011, its net loss for the year ended 30 June 2011, and the related disclosures thereof in the consolidated financial statements.

(11) Scope limitation — Purchases from a supplier in Canada

Included in "**Cost of sales**" in the consolidated statement of comprehensive income for the year ended 30 June 2011 were purchases of finished goods of approximately HK$3,954,000 from a supplier in Canada (the "**Canadian Supplier**"). We were unable to obtain sufficient appropriate audit evidence regarding the purchase transactions with the Canadian Supplier because: (i) there was inadequate documentary evidence available for us to verify the identity of the Canadian Supplier and the delivery of related products; (ii) there was no satisfactory explanation and sufficient appropriate evidence provided to us to explain and verify the reason for the cash cheques issued by the Group totaling HK$3,954,000 for the settlement of the purchase transactions with the Canadian Supplier; (iii) we were unable to carry out any effective confirmation procedures in relation to the purchase transactions with the Canadian Supplier for the purpose of our audit; and (iv) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the above purchase transactions with the Canadian Supplier were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the Group's net assets at 30 June 2011, its net loss for the year ended 30 June 2011, and the related disclosures thereof in the consolidated financial statements.

(12) Scope limitation — Purchases from a supplier in Beijing

Included in "**Deposits, prepayments and other receivables**" in the consolidated statement of financial position at 30 June 2010 were prepayment to a supplier in Beijing (the "**Beijing Supplier**") for beauty equipment of approximately HK$12,200,000 (the "**Beijing Supplier Prepayment**") and the entire of the Beijing Supplier Prepayment was recognised as "**Cost of sales**" in the consolidated statement of comprehensive income for the year ended 30 June 2011. We were unable to obtain sufficient appropriate audit evidence regarding the purchase transactions with the Beijing Supplier because: (i) there was inadequate documentary evidence available for us to verify the identity of the Beijing Supplier and the delivery of related products; (ii) we were unable to carry out any effective confirmation procedures in relation to the purchase transactions and the Beauty Equipment Prepayment with the Beijing Supplier for the purpose of our audit; and (iii) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the above purchase transactions and the Beijing Supplier Prepayment were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the Group's net assets at 30 June 2011, its net loss for the year ended 30 June 2011, and the related disclosures thereof in the consolidated financial statements.

(13) Scope limitation — Deconsolidation of subsidiaries

As further explained in notes 3 and 32 to the consolidated financial statements, the directors of the Company were unable to obtain sufficient documentary information to satisfy themselves regarding the ownership and control over two entities, namely 珠海富麗花化妝品有限公司("**珠海富麗花**") and 北京富麗花譜美容有限公司("**北京富麗花**"). In addition, the directors of the Company also have not been able to access to the books and records. Both 珠海富麗花 and 北京富麗花were included in the consolidated financial statements of the Group for the year ended 30 June 2010. Due to the insufficiency in accounting information of 珠海富麗花 and 北京富麗花, the financial statements of 珠海富麗花 and 北京富麗花 have not been consolidated in the Group's consolidated financial statements for the year ended 30 June 2011. The resulting loss on deconsolidation of approximately HK$135,000 has been recognised in profit or loss in the consolidated statement of comprehensive income for the year ended 30 June 2011.

Due to the lack of complete books and records of 珠海富麗花 and 北京富麗花 we have not been able to obtain sufficient appropriate audit evidence to verify the appropriateness of the accounting treatment of 珠海富麗花 and 北京富麗花 and the loss on the deconsolidation thereon. Any adjustments that might have been found necessary may have an effect on the Group's assets, liabilities and net loss for the year ended 30 June 2011 and the related disclosures thereof in the consolidated financial statements.

(14) Scope limitation — Events after the reporting period

We were unable to obtain sufficient appropriate audit evidence regarding the events after the reporting period because: (i) there was inadequate documentary evidence available for us to verify the occurrence, accuracy and completeness of the significant transactions or events which may have occurred between the period from 1 July 2011 to the date of this auditors' report as required under Hong Kong Standard on Auditing 560 "**Subsequent Events**" issued by the HKICPA; (ii) we were unable to carry out any effective confirmation procedures in relation to the entities involved in the events after the reporting period as disclosed in note 36 to the consolidated financial statements; and (iii) prior to the date of this report, the board of directors of the Company had resolved to establish a special investigation committee for the purpose of, inter alia, including investigating issues raised by the predecessor auditors in their resignation letter. The investigation has not been completed and no report has been issued up to the date of this report. Pending the final outcome of the investigation, there were no practical audit procedures that we could perform over significant transactions or events which occurred during the period from 1 July 2011 to the date of this auditors' report. As a result, we are unable to form an opinion as to whether all significant transactions or events which occurred during the period from 1 July 2011 to the date of this auditors' report were properly accounted for and adequately disclosed in the consolidated financial statements.

(15) Scope limitation — Related party disclosures

(a) The entity to whom the Group made the JV Expense Advance during the year ended 30 June 2010 (as referred to in item 3(b) above) appeared to be a related party of the Group based on the results of our searches made with public registry which indicated that the former chief executive officer of the Group was a director of the above entity. There was no satisfactory explanation and sufficient appropriate audit evidence provided to us to explain and verify as to whether the above transaction might have constituted a related party transaction for the year ended 30 June 2010.

(b) One of the entities on whose behalf the Group made the Legal Fee Prepayment during the year ended 30 June 2010 (as referred to in item 7 above) appeared to be a related party of the Group based on the results of our searches made with public registry which indicated that a director of the Company and the former chief executive officer of the Group were directors and shareholders of the above entity. There was no satisfactory explanation and sufficient appropriate audit evidence provided to us to explain and verify as to whether the above transaction might have constituted a related party transaction for the year ended 30 June 2010.

Prior to the date of this report, the board of directors of the Company had resolved to establish a special investigation committee for the purpose of, inter alia including investigating issues raised by the predecessor auditors in their resignation letter. The investigation has not been completed and no report has been issued up to the date of this report. Pending the final outcome of the investigation, there were no practical audit procedures that we could perform over significant related party transactions which may have occurred during the current and prior years. Accordingly, we were unable to form an opinion as to whether all significant related party transactions which occurred during the current and prior years were properly accounted for and adequately disclosed in the consolidated financial statements.

(16) Scope limitation — Opening balances and corresponding figures

As a result of the matters mentioned in items 1, 2(a), 3, 4, 6(b), 7, 8, 10, 12, 13 and 15 above, we were unable to obtain sufficient appropriate audit evidence regarding the opening balances and corresponding figures and there were no alternative audit procedures to satisfy ourselves as to whether the opening balances and corresponding figures were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the Group's assets and liabilities at 30 June 2010 and 2011 and its results for the years ended 30 June 2010 and 2011, and the presentation and disclosures thereof in the consolidated financial statements.

Had we been able to satisfy ourselves in respect of the matters mentioned in items (1) to (15) above, adjustments might have been found to be necessary which would have had a consequential impact on the Group's net assets at 30 June 2011 and its net loss for the year then ended and may have resulted in additional information being disclosed in the consolidated financial statements.

(17) Material uncertainties relating to the going concern basis

As disclosed in note 3 to the consolidated financial statements, the Group incurred a loss attributable to the owners of the Company of approximately HK$185,680,000 for the year ended 30 June 2011. 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 refundable deposit of HK$40,500,000 from the vendor in connection with the termination of the Group's proposed acquisition of 70% equity interest in Vertical Signal Investments Limited ("Vertical"), further details of which were set out in the Company's announcement dated 5 April 2012; (ii) the estimated proceeds from sales of inventories amounting to approximately HK$26,600,000 (which were purchased by the Group subsequent to 30 June 2011); and (iii) the repayment and settlement of inventory prepayments from the Group's suppliers amounting to approximately HK$34,702,000 (collectively referred to as the "**Proposed Plans**").

The validity of the going concern assumption on which the consolidated financial statements are prepared is dependent on the success of the Proposed Plans being implemented by the Group. The consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern and therefore do not include any adjustments relating to the realisation and reclassification of non-current assets that may be necessary if the Group is unable to continue as a going concern.

Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised at other than the amounts at which they are currently recorded in the consolidated statement of financial position. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets as current assets. We consider that appropriate disclosures have been made in the consolidated financial statements. However, the material uncertainty in relation to the appropriateness of the adoption of the going concern basis is so extreme that we have disclaimed our opinion.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Company and of the Group at 30 June 2011 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and as to whether the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Report on Matters under sections 141(4) and 141(6) of the Hong Kong Companies Ordinance

In respect alone of the inability to obtain sufficient appropriate audit evidence regarding items 1 to 16 above:

— we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and

— we were unable to determine whether proper books of account had been kept.

OTHER MATTER

The consolidated financial statements of the Group for the year ended 30 June 2010 were audited by another firm of auditors who expressed an unmodified opinion on those statements on 27 September 2010.

3. AUDITORS' REPORT FOR THE YEAR ENDED 30 JUNE 2012

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

BASIS FOR DISCLAIMER OF OPINION

(1) Opening balances and corresponding figures

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

(2) Scope limitation — Investments in unconsolidated subsidiaries

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

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

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

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

(3) Scope of limitation — Balances with the Unconsolidated Subsidiaries

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

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

(4) Material uncertainty relating to the Investigation

As disclosed in note 2 to the consolidated financial statements, the Company made an announcement on 18 July 2012 in respect of the appointment of an independent professional firm to conduct a forensic investigation to address (i) all the issues raised by the predecessor auditors in their resignation letter dated 7 March 2012; and (ii) all the issues raised in our independent auditors' report dated 8 June 2012 on the 2011 Financial Statements (the "**Investigation**"). Up to the date of this report, the board of directors of the Company is still in the midst of considering the findings of the Investigation. Accordingly, there were no practical audit procedures that we could perform to ascertain the completeness, validity and accuracy of the transactions asserted to have been undertaken by the Unconsolidated Subsidiaries. Any adjustments or disclosures that might have been found to be necessary would have a consequential significant effect on the accounting treatments adopted by the Group in respect of those transactions, the opening balances and prior period corresponding amounts and the related disclosures thereof in the Group's consolidated financial statements.

(5) Material uncertainties relating to the going concern basis

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

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

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

Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised at other than the amounts at which they are currently recorded in the consolidated statement of financial position. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets as current assets. We consider that appropriate disclosures have been made in the consolidated financial statements. However, in view of the extent of the uncertainty relating to the outcomes of the Proposed Plans, we disclaim our opinion in respect of the material uncertainty relating to the going concern.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Company and of the Group at 30 June 2012 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and as to whether the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Report on Matters under sections 141(4) and 141(6) of the Hong Kong Companies Ordinance

In respect alone of the inability to obtain sufficient appropriate audit evidence regarding items 1 to 4 above mentioned:

— we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and

— we were unable to determine whether proper books of account had been kept.

4. AUDITORS' REPORT FOR THE SIX MONTHS ENDED 31 DECEMBER 2012

The following paragraphs extracted from the independent auditors' report on the Group's Financial statement for the six months ended 31 December 2012.

Basis for Disclaimer of Opinion

(1) Opening balances and corresponding figures

Our audit opinion on the consolidated financial statements of the Group for the year ended 30 June 2012 (the "**2012 Financial Statements**"), which forms the basis for the corresponding figures presented in the interim financial information, was disclaimed because of the significance of the possible effect of the limitation on the scope of our audit and the material uncertainty in relation to going concern. The details of the basis for disclaimer opinion are set out in our independent auditors' report dated 6 December 2012. Accordingly, we were unable to form an opinion as to whether the 2012 Financial Statements gave a true and fair view of the state of affairs of the Group at 30 June 2012 and of the Group's results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

(2) Investment in unconsolidated subsidiaries

As further explained in note 2 to the interim financial information, the directors of the Company are unable to obtain complete books and records of Blu Spa (Hong Kong) Limited (the "**BSHK**") and its subsidiaries (the "**BSHK Group**"), Clapton Holdings Limited, Blu Spa International Limited and Blu Spa Management Services Limited (collectively referred to as the "**Unconsolidated Subsidiaries**"). Due to the lack of complete books and records of the Unconsolidated Subsidiaries, the financial statements of the Unconsolidated Subsidiaries have not been consolidated into the Group's interim financial information.

As disclosed in the Company's announcement dated 9 April 2013, a firm of independent forensic accountants was engaged 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"). Based on the result of the Forensic Investigation, the directors of the Company concluded that, among other things, 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 BSHK Group. Furthermore, as disclosed in the Company's announcement dated 19 February 2013, BSHK commenced creditors' voluntary liquidation and joint and several liquidators were appointed by a resolution of BSHK's creditors on 26 February 2013.

Given these circumstances, the directors of the Company concluded that the financial statements of the Unconsolidated Subsidiaries have not been consolidated in the Group's interim financial information which was consistent to prior year.

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 period in the circumstances, the exclusion of the financial position, results and cash flows of the Unconsolidated Subsidiaries from the interim financial information 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 interim financial information would have been materially affected. Due to the 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 non-consolidation of the Unconsolidated Subsidiaries on the interim financial information. We have also not been able to obtain sufficient appropriate evidence and explanations to determine whether the carrying values 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 31 December 2012 and the loss and cash flows of the Group for the period ended.

(3) Scope of limitation — Balances with the Unconsolidated Subsidiaries

As further explained in note 2 to the interim financial information, the Group had amounts due from and amounts due to the Unconsolidated Subsidiaries of approximately HK$279,460,000 and HK$1,330,000 respectively at 31 December 2012 (collectively referred as to the "**Balances with the Unconsolidated Subsidiaries**"). The directors of the Company are of the view that the carrying values of the amounts due from the Unconsolidated Subsidiaries to the Group are not recoverable and recognised impairment losses of approximately HK$90,000 and HK$240,593,000 for the six months ended 31 December 2012 and for year ended 30 June 2012 respectively.

Due to lack of complete books and records of the Unconsolidated Subsidiaries, we have not been able to obtain sufficient appropriate audit evidence to determine whether the Balances with the Unconsolidated Subsidiaries and the impairment losses recognised on the amounts due from the Unconsolidated Subsidiaries to the Group 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 at 31 December 2012 and the loss attributable to the equity holders of the Company for the six months ended 31 December 2012.

(4) Going concern basis of accounting

As disclosed in note 2 to the interim financial information, the Group incurred a loss attributable to the owners of the Company of approximately HK$13,558,000 for the six months ended 31 December 2012, which indicates the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

The interim financial information have been prepared on a going concern basis. The validity of the going concern assumption on which the interim financial information are prepared is dependent on the favorable outcomes of (i) the repayment of the amounts due from the Unconsolidated Subsidiaries of approximately HK$36,450,000 of which details were set out in the Company's announcement dated 29 January 2013; (ii) the extension of repayment of loan facility of approximately HK$31,403,000 granted by a company owned by an executive director of which details were set out in the Company's announcement dated 2 April 2013; (iii) the completion of the conditional subscription agreement, in which was under certain conditions as further disclosed 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 announcement dated 21 March 2013 and (iv) the completion of the conditional unsecured loan agreement, in which was under certain conditions as further disclosed in note 2, in the principal amount of HK$40,000,000 of which details were set out in the Company's announcement dated 21 March 2013 (the "**Proposed Plans**").

The interim financial information do not include any adjustments that would result from a failure to attain favorable results of the Proposed Plans.

Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised at other than the amounts at which they are currently recorded in the condensed 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 interim financial information. 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.

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 interim financial information for the six months ended 31 December 2012 as to whether it is prepared in accordance with HKAS 34 "Interim Financial Reporting".

Other Matter

We draw attention to the fact that the comparative figures set out in the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six months ended 31 December 2011 and related disclosures in the interim financial information have not been audited in accordance with Hong Kong Standard on Auditing issued by the HKICPA.

5. AUDITED FINANCIAL INFORMATION FOR THE YEAR ENDED 30 JUNE 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2012

	notes	**2012** *HK$'000*	2011 *HK$'000* (Restated)
Continuing operations			
Turnover	8	**702**	49,064
Cost of sales		**(1,213)**	(37,475)
Gross (loss) profit		**(511)**	11,589
Other revenue		**987**	312
Selling and distribution costs		**(2)**	(7,757)
Administrative expenses		**(7,809)**	(16,754)
Impairment loss recognised in respect of intangible asset	17	**(7,488)**	–
Impairment loss recognised in respect of trade receivables	21	**–**	(117,525)
Impairment loss recognised in respect of deposits, prepayments and other receivables	22	**(240,593)**	(52,135)
Gain (loss) on de-consolidation of subsidiaries	32	**155,547**	(135)
Finance costs	10	**(520)**	(7,043)
Loss before tax		**(100,389)**	(189,448)
Income tax expense	12	**–**	(6)
Loss for the year from continuing operations		**(100,389)**	(189,454)
Discontinued operations			
Profit for the year from discontinued operations	13	**–**	3,774
Loss for the year	14	**(100,389)**	(185,680)
Other comprehensive income			
Exchange differences arising on translation of foreign operations		**–**	1
Release of translation reserve upon de-consolidation of subsidiaries	32	**4**	16
Other comprehensive income for the year		**4**	17
Total comprehensive expense for the year		**(100,385)**	(185,663)
Loss for the year attributable to:			
Owners of the Company		**(100,389)**	(185,680)
Total comprehensive expense for the year attributable to:			
Owners of the Company		**(100,385)**	(185.663)
Loss per share (HK cents)	16		
From continuing and discontinued operations			
– Basic and diluted		**(7.71)**	(22.09)
From continuing operations			
– Basic and diluted		**(7.71)**	(22.53)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2012

	notes	**2012** **HK$'000**	2011 HK$'000
Non-current assets			
Intangible asset	17	**–**	7,488
Property, plant and equipment	18	**3,156**	2,138
		3,156	9,626
Current assets			
Inventories	20	**1,943**	975
Trade receivables	21	**–**	3,158
Deposits, prepayments and other receivables	22	**52,272**	119,015
Bank balances and cash	23	**308**	1,436
		54,523	124,584
Current liabilities			
Amount due to a former director	24	**64**	219
Amounts due to related companies	25	**–**	2,033
Amount due to a related party	25	**–**	385
Deposits from customers	26	**551**	4,446
Accruals and other payables	27	**11,451**	9,763
Obligation under financial leases	28	**105**	–
Other borrowing	29	**19,586**	2,000
Provision for taxation		**–**	5,594
		31,757	24,440
Net current assets		**22,766**	100,144
Total assets less current liabilities		**25,922**	109,770
Non-current liability			
Obligation under financial leases	28	**449**	–
Net assets		**25,473**	109,770
Equity attributable to owners of the Company			
Share capital	30	**131,220**	120,220
Reserves		**(105,747)**	(10,450)
Total equity		**25,473**	109,770

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

Yu Shu Kuen	**Lee Chan Wah**
Director	*Director*

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

STATEMENT OF FINANCIAL POSITION
At 30 June 2012

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

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

Yu Shu Kuen	**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 2012

	Share capital HK$'000	Share premium HK$'000	Merger reserve HK$'000 (Note 1)	Convertible bonds equity reserve HK$'000	Translation reserve HK$'000 (Note 2)	Accumulated losses HK$'000	Total equity HK$'000
At 1 July 2010	52,220	90,135	22,734	40,566	(21)	(17,769)	187,865
Loss for the year	–	–	–	–	–	(185,680)	(185,680)
Other comprehensive income for the year:							
Exchange differences arising on translation of foreign operations	–	–	–	–	1	–	1
Release of translation reserve upon de-consolidation of subsidiaries	–	–	–	–	16	–	16
Total comprehensive expense for the year	–	–	–	–	17	(185,680)	(185,663)
Issue of shares pursuant to the subscription agreements dated 29 November 2010	8,000	22,000	–	–	–	–	30,000
Transaction costs attributable to issue of new shares	–	(1,163)	–	–	–	–	(1,163)
Issue of shares on conversion of convertible bonds	60,000	59,297	–	(40,566)	–	–	78,731
At 30 June 2011 and 1 July 2011	120,220	170,269	22,734	–	(4)	(203,449)	109,770
Loss for the year	–	–	–	–	–	(100,389)	(100,389)
Other comprehensive income for the year:							
Release of translation reserve upon de-consolidation of subsidiaries	–	–	–	–	4	–	4
Total comprehensive expense for the year	–	–	–	–	4	(100,389)	(100,385)
Issue of shares pursuant to the placing agreement dated 27 July 2011	11,000	5,500	–	–	–	–	16,500
Transaction costs attributable to issue of new shares	–	(412)	–	–	–	–	(412)
At 30 June 2012	**131,220**	**175,357**	**22,734**	**–**	**–**	**(303,838)**	**25,473**

Notes:

1) **Merger reserve**
The merger reserve of the Group represents the differences between the carrying amount of the share capital and share premium of Blu Spa Group Limited at the date on which it was acquired by the Company and the nominal amount of the Company's share issued in exchange pursuant to the Group Reorganisation.

2) **Translation reserve**
Exchange differences arising from the translation of the net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. Hong Kong dollars) are recognised directly in other comprehensive income and accumulated in the translation reserve.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 30 June 2012

	2012	2011
	HK$'000	*HK$'000*
Operating activities		
(Loss) profit before tax:		
– Continuing operations	**(100,389)**	(189,448)
– Discontinued operations	**–**	3,774
	(100,389)	(185,674)
Adjustments for:		
Interest income	**–**	(1)
Imputed interest on convertible bonds	**–**	7,043
Interest expenses	**520**	–
Depreciation on property, plant and equipment	**126**	718
Amortisation of intangible asset	**–**	936
(Gain) loss on de-consolidation of subsidiaries	**(155,547)**	135
Impairment loss recognised in respect of intangible asset	**7,488**	–
Impairment loss recognised in respect of trade receivables	**–**	117,525
Impairment loss recognised in respect of deposits, prepayments and other receivables	**240,593**	52,135
Written back of accruals and other payables	**–**	(257)
Written back of write down of inventories	**–**	(10)
Operating cash flows before movements in working capital	**(7,209)**	(7,450)
Increase in inventories	**(1,943)**	(515)
Increase in trade receivables	**–**	(36,943)
(Increase) decrease in deposits, prepayments and other receivables	**(28,312)**	10,065
Increase in accruals and other payables	**5,443**	6,924
(Decrease) increase in amount due to a former director	**(18)**	104
Decrease in amounts due to related companies	**–**	(2,930)
Increase in amount due to a related party	**–**	262
Increase in deposits from customers	**551**	1,531
Cash used in operating activities	**(31,488)**	(28,952)
Interest paid	**(520)**	–
Interest received	**–**	1
Tax paid	**–**	(1,810)
Net cash used in operating activities	**(32,008)**	(30,761)

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 30 June 2012

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

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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2012

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and the principal place of business of the Company in Hong Kong are disclosed in the corporate information to the annual report.

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

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

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

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

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

Going Concern basis

These consolidated financial statements have been prepared on a going concern basis notwithstanding that the Group incurred a loss attributable to the owners of the Company of approximately HK$100,389,000 for the year ended 30 June 2012, which indicates the existence of a material uncertainty and may cast significant doubt about the Group's ability to continue as a going concern.

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

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

Going Concern basis (Continued)

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

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

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

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

Material Uncertainty relating to the Investigation

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

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

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

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

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

Material Uncertainty relating to the Investigation (Continued)

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

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

Subsidiaries not consolidated

The consolidated financial statements were prepared based on the books and records maintained by the Company and its subsidiaries. However, the directors and management of certain subsidiaries of the Company, namely, the BSHK and its subsidiaries (the "BSHK Group"), Clapton Holdings Limited, Blu Spa International Limited and Blu Spa Management Services Limited (collectively referred to as the "Unconsolidated Subsidiaries"), have not provided complete documentary information and reasonable explanation in respect of the transactions asserted to have been undertaken. The Directors have not been able to obtain complete documentary information to satisfy themselves regarding the accounting treatments in respect of those transactions for the year ended 30 June 2012. As such, the results, assets and liabilities of the Unconsolidated Subsidiaries have not been included into the consolidated financial statements of the Group since 1 July 2011. The resulting gain on de-consolidation, which is determined based on the net asset value of the Unconsolidated Subsidiaries at 1 July 2011 of approximately HK$155,547,000, have been recognised in the consolidated statement of comprehensive income for the year ended 30 June 2012. Moreover, at 30 June 2012, the amounts due from the Unconsolidated Subsidiaries to the Group and the Company of approximately HK$288,303,000 and HK$285,268,000 respectively, among which approximately HK$240,593,000 and HK$74,291,000 respectively are considered not recoverable and impairment losses have been recognised in the consolidated statement of comprehensive income for the year ended 30 June 2012. The Directors consider that the remaining balances of the amounts due from the Unconsolidated Subsidiaries to the Group and the Company of approximately HK$47,710,000 and HK$47,627,000 respectively could be recovered in full. Details of de-consolidation of the Unconsolidated Subsidiaries are set out in note 32 to the consolidated financial statements.

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

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

Subsidiaries not consolidated (Continued)

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

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

In the current year, the Group has applied for the first time, the following new and revised standards and interpretations (collectively referred to as the "new and revised HKFRSs") issued by the HKICPA which are effective for the Group's financial year beginning on 1 July 2011. A summary of the new and revised HKFRSs adopted by the Group is set out as follows:

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

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

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies are set out below.

(a) Basis of consolidation

Subsidiaries

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

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of consolidation (Continued)

Transactions with non-controlling interests

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

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

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

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

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

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

(c) Inventory

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

(e) Property, plant and equipment

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

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

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

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

(f) Intangible asset

Trademark

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Financial instruments

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

Financial assets

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

Effective interest method

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

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

Loans and receivables

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

Impairment of financial assets

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Financial instruments (Continued)

***Financial assets** (Continued)*

Impairment of financial assets (Continued)

Objective evidence of impairment could include:

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

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

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

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Financial instruments (Continued)

Financial liabilities and equity

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

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

Effective interest method

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

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

Other financial liabilities

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

Equity instruments

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Financial instruments (Continued)

Derecognition

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

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

(h) Revenue recognition

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Taxation

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

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

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Leasing

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

The Group as lessee

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

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

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

(k) Foreign currencies

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Foreign currencies (Continued)

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Borrowing costs

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

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

(m) Retirement benefits costs

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

(n) Provisions

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

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

(o) Related parties

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

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

(2) has significant influence over the Group; or

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Related parties (Continued)

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

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

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

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

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

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

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

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

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

(p) Contingent liabilities and assets

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

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgments in applying accounting policies

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

Useful lives of property, plant and equipment

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

Impairment loss of trade receivables

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

Impairment loss of intangible assets

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

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

Critical judgments in applying accounting policies (Continued)

Net realised value of inventories

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

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

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

(b) Financial risk management objectives and policies

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

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

6. FINANCIAL INSTRUMENTS (Continued)

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

Market risk

(i) Currency risk

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

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

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

Sensitivity analysis

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

6. FINANCIAL INSTRUMENTS (Continued)

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

Market risk *(Continued)*

(i) Currency risk (Continued)

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

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

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

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

(ii) Interest rate risk

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

Sensitivity analysis

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

- Profit before tax for the year ended 30 June 2012 would be increase/decrease by approximately HK$96,000 (2011: HK$8,400).
- No impact to the other component of equity for the year ended 30 June 2012 and 2011.

6. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk

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

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

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

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

Liquidity risk

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

6. FINANCIAL INSTRUMENTS (Continued)

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

Liquidity risk *(Continued)*

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

6. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value of financial instruments

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

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

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

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

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

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

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

The levels are defined as follows:

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

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

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

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

7. CAPITAL RISK MANAGEMENT

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

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

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

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

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

Note:

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

8. TURNOVER

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

9. SEGMENT INFORMATION

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

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

Continuing operations

(i) Sales of beauty equipment

(ii) Sales of beauty products

(iii) Therapy services

Discontinued operations

(i) Royalty fee income

(ii) Provision of training courses

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

9. SEGMENT INFORMATION (Continued)

For the year ended 30 June 2012

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

9. SEGMENT INFORMATION (Continued)

For the year ended 30 June 2011

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

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

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

9. SEGMENT INFORMATION (Continued)

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

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

Segment assets and liabilities

	Continuing operations				Discontinued operations			
OPERATING SEGMENT	Sales of beauty equipment *HK$'000*	Sales of beauty products *HK$'000*	Therapy services *HK$'000*	Segment total *HK$'000*	Royalty fee income *HK$'000*	Provision of training courses *HK$'000*	Segment total *HK$'000*	Consolidated *HK$'000*
2012								
ASSETS								
Segment assets	**–**	**50**	**175**	**225**	**–**	**–**	**–**	**225**
Unallocated corporate assets								**57,454**
Consolidated total assets								**57,679**
LIABILITIES								
Segment liabilities	**(380)**	**–**	**(171)**	**(551)**	**–**	**–**	**–**	**(551)**
Unallocated corporate liabilities								**(31,655)**
Consolidated total liabilities								**(32,206)**
Other segment information:								
Additions of property, plant and equipment								**3,299**
Depreciation								**126**
2011								
ASSETS								
Segment assets	46,004	27,702	561	74,267	–	–	–	74,267
Unallocated corporate assets								59,943
Consolidated total assets								134,210
LIABILITIES								
Segment liabilities	–	(2,210)	(4,269)	(6,479)	–	–	–	(6,479)
Unallocated corporate liabilities								(17,961)
Consolidated total liabilities								(24,440)
Other segment information:								
Additions of property, plant and equipment								180
Depreciation and amortisation								1,654

9. SEGMENT INFORMATION (Continued)

Geographical information

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

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

Information about major customer

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

10. FINANCE COSTS

	2012	2011
	HK$'000	*HK$'000*
Continuing operations		
Interest expenses on other borrowing (Note)	**513**	–
Interest expenses on finance lease	**7**	–
Imputed interest on convertible bonds	**–**	7,043
	520	7,043

Note:

Interest expenses on other borrowing were interest expenses on the loan advanced by Koffman Investment Limited ("Koffman") with a term of 3 months from 27 March 2012 at interest rate of 12% per annum. On 26 June 2012, 26 September 2012, 26 October 2012 and 26 November 2012, the Company has entered into four supplementary loan agreements with Koffman to extend the repayment date of the above loan from 27 June 2012 to 7 December 2012. Details of which were set out in note 29.

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

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

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

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

Notes:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(b) Employees' emoluments

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

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

Their emoluments were within the following bands:

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

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

12. INCOME TAX EXPENSE

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

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

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

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

At the end of the reporting period, the Group has unused estimated tax losses of approximately HK$36,618,000 (2011: HK$27,530,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the estimated tax losses due to the unpredictability of future profit streams.

13. DISCONTINUED OPERATIONS

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

	Note	**2012** ***HK$'000***	2011 *HK$'000*
Turnover	8	**–**	4,336
Cost of sales		**–**	–
Gross profit		**–**	4,336
Selling and distribution costs		**–**	(511)
Administrative expenses		**–**	(51)
Profit before tax		**–**	3,774
Income tax expense		**–**	–
Profit for the year		**–**	3,774

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

14. LOSS FOR THE YEAR

	2012	2011
	HK$'000	*HK$'000*
Loss for the year from continuing operations has been arrived at after (charging) crediting:		
Directors' remuneration (note 11(a))	**(961)**	(2,889)
Other staff costs	**(2,784)**	(10,094)
Retirement benefit scheme contributions	**(96)**	(423)
Total staff costs	**(3,841)**	(13,406)
Amortisation of intangible asset	**–**	(936)
Auditors' remuneration	**(1,000)**	(1,000)
Depreciation	**(126)**	(718)
Gain (loss) on de-consolidation of subsidiaries	**155,547**	(135)
Impairment loss recognised in respect of trade receivables	**–**	(117,525)
Impairment loss recognised in respect of deposits, prepayments and other receivables	**(240,593)**	(52,135)
Impairment loss recognised in respect of intangible asset	**(7,488)**	–
Bank interest income	**–**	1
Written back of accruals and other payables	**–**	257
Written back on write down of inventories (note 20)	**–**	10
Operating lease payment	**(572)**	(6,990)

15. DIVIDENDS

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

16. LOSS PER SHARE

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

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

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

17. INTANGIBLE ASSET

The Group

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

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

Impairment test of trademark

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

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

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

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 2010, 30 June 2011 and 1 July 2011	–	–	–	–
Additions	1,255	33	611	1,899
At 30 June 2012	**1,255**	**33**	**611**	**1,899**
Accumulated depreciation and impairment				
At 1 July 2010, 30 June 2011 and 1 July 2011	–	–	–	–
Charge for the year	42	1	41	84
At 30 June 2012	**42**	**1**	**41**	**84**
Carrying amounts				
At 30 June 2012	**1,213**	**32**	**570**	**1,815**
At 30 June 2011	–	–	–	–

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

19. INTERESTS IN SUBSIDIARIES

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

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

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

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

20. INVENTORIES

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

20. INVENTORIES (Continued)

Movements in write down of inventories:

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

21. TRADE RECEIVABLES

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

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

The Group allows credit period ranging from two months to six months to its customers. Details of the ageing analysis of trade receivables are as follows:

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

21. TRADE RECEIVABLES (Continued)

Past due but not impaired

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

Age of receivables that are past due but not impaired

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

Impaired trade receivables

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

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

Note:

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

22. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

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

22. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Notes:

(a) During the year ended 30 June 2012, due to lack of complete books and records of the Unconsolidated Subsidiaries, the results, assets and liabilities of the Unconsolidated Subsidiaries have not been included into the consolidated financial statements of the Group since 1 July 2011. Accordingly a deposit of approximately HK$76,210,000 and corresponding impairment loss of approximately HK$30,000,000 were not included in the consolidated financial statements. As at 30 June 2012, details of the deposits and an impairment loss of approximately HK$32,500,000 in respect of deposit paid recognised in the consolidated statement of comprehensive income for the year ended 30 June 2011 were as follows:

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

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

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

22. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

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

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

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

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

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

22. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(a) Impaired deposits paid

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

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

(b) During the year ended 30 June 2012, due to lack of complete books and records of the Unconsolidated Subsidiaries, the results, assets and liabilities of the Unconsolidated Subsidiaries have not been included into the consolidated financial statements of the Group since 1 July 2011. Accordingly prepayments of the Unconsolidated Subsidiaries of approximately HK$86,501,000 and corresponding impairment loss of approximately HK$14,500,000 were not included in the consolidated financial statements. Details of prepayments as at 30 June 2011 and impairment loss of approximately HK$14,500,000 in respect of prepayments recognised in the consolidated statement of comprehensive income for the year ended 30 June 2011 were as followings:

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

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

22. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

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

Impaired prepayments

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

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

(c) During the year ended 30 June 2012, due to lack of complete books and records of the Unconsolidated Subsidiaries, the results, assets and liabilities of the Unconsolidated Subsidiaries have not been included into the consolidated financial statements of the Group since 1 July 2011. Accordingly other receivables of the Unconsolidated Subsidiaries of approximately HK$135,000 and corresponding impairment loss of approximately HK$135,000 were not included in the consolidated financial statements. Details of the other receivables as at 30 June 2011 and impairment loss of HK$5,135,000 in respect of other receivables recoginsed in the consolidated statement of comprehensive income for the year ended 30 June 2011 were as followings:

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

22. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(c) Impaired other receivables

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

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

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

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

22. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

(d) Impaired amounts due from the Unconsolidated Subsidiaries

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

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

23. BANK BALANCES AND CASH

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

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

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

24. AMOUNT DUE TO A FORMER DIRECTOR

The Group and the Company

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

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

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

25. AMOUNTS DUE TO RELATED COMPANIES/A RELATED PARTY

The Group

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

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

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

26. DEPOSITS FROM CUSTOMERS

The Group

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

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

27. ACCRUALS AND OTHER PAYABLES

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

Note:

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

28. OBLIGATION UNDER FINANCE LEASES

The Group

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

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

28. OBLIGATION UNDER FINANCE LEASES (Continued)

The Company

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

	Minimum lease payments		Present value of minimum lease payments	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable under finance leases:				
Within one year	**122**	–	**97**	–
More than one year and not more than five years	**459**	–	**417**	–
	581	–	**514**	–
Less: future finance charges	**(67)**	–	**–**	–
	514	–	**514**	–
Less: Amounts due for settlement within 12 months (shown under current liabilities)			**(97)**	–
Amounts due for settlement after 12 months			**417**	–

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

29. OTHER BORROWING

The Group and the Company

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

Included in other borrowing of approximately HK$19,586,000 was a loan advanced by Koffman of which Mr. Yu Shu Kuen, an executive Director and the Chairman, is the ultimate beneficial owner. On 27 March 2012, the Company has entered into a loan agreement with Koffman, pursuant to which, Koffman agreed to make available to the Company a loan facility up to HK$20,000,000 for a term of 3 months from the date of the agreement at interest rate of 12% per annum. There is no security over the assets of the Group in respect of the loan.

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

30. SHARE CAPITAL

The Group and the Company

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

Notes:

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

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

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

31. RESERVES

The Company

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

32. DE-CONSOLIDATION OF SUBSIDIARIES

As disclosed in note 2 of the consolidated financial statements, the consolidated financial statements were prepared based on the books and records maintained by the Company and its subsidiaries. However, the directors and management of the Unconsolidated Subsidiaries have not provided complete documentary information and reasonable explanation in respect of the transactions asserted to have been undertaken. The Directors have not been able to obtain complete documentary information to satisfy themselves regarding the accounting treatments in respect of those transactions for the year ended 30 June 2012. As such, the results, assets and liabilities of the Unconsolidated Subsidiaries have not been included into the consolidated financial statements of the Group since 1 July 2011. The resulting gain on de-consolidation, which is determined based on the net asset value of the Unconsolidated Subsidiaries as at 1 July 2011 of approximately HK$155,547,000, have been recognised in the consolidated statement of comprehensive income for the year ended 30 June 2012.

32. DE-CONSOLIDATION OF SUBSIDIARIES (Continued)

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

(a) The BSHK Group

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

32. DE-CONSOLIDATION OF SUBSIDIARIES (Continued)

(b) Clapton Holdings Limited

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

(c) Blu Spa Management Services Limited

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

32. DE-CONSOLIDATION OF SUBSIDIARIES (Continued)

(d) Blu Spa International Limited

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

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

(a) 北京富麗花

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

32. DE-CONSOLIDATION OF SUBSIDIARIES (Continued)

(b) 珠海富麗花

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

33. RETIREMENT BENEFIT SCHEME

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

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

34. OPERATING LEASE COMMITMENTS

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

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

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

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

35. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed in amounts due from the Unconsolidated Subsidiaries (note 22), amount due to a former director (note 24), amounts due to related companies/a related party (note 25), amounts due to the Unconsolidated Subsidiaries (note 27) and elsewhere to the consolidated financial statements, the Group had the following material transactions with related parties during the year:

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

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

Koffman (Note 1)	Loan	**19,586**	–

35. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

Note:

(1) Mr. Yu Shu Kuen, an executive Director and the Chairman, is the ultimate beneficial owner of Koffman. Details of the transactions were set out in note 29 to the consolidated financial statements.

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

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

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

(4) Ms. Chan Choi Har Ivy, the former executive Director resigned on 7 March 2012.

Compensation for key management personnel

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

The Group

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

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

36. EVENTS AFTER REPORTING PERIOD

(a) As set out in the Company's announcement dated 18 July 2012, EDS Distribution Limited ("EDS Distribution"), a wholly owned subsidiary of the Company, has entered into the exclusive distribution agreement ("Exclusive Distribution Agreement") with Montaigne Limited ("Montaigne") on 13 July 2012. Pursuant to the Exclusive Distribution Agreement, Montaigne has granted exclusive distributorship of " Evidens de Beauté" products in Hong Kong to EDS Distribution for an initial term of 3 years which shall be renewed automatically for a period of 1 years unless terminated by either party.

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

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

(d) On 26 June 2012, the Company has entered into an extension agreement with Koffman, of which Mr. Yu Shu Kuen, an executive Director and the Chairman, is the ultimate beneficial owner for a loan in the principle sum increased to HK$50,000,000 from HK$20,000,000 for a term of 3 months from the date of the agreement at interest rate of 12% per annum. There is no security over the assets of the Group in respect of this loan. Up to the date of this report, the total sum of loan borrowed from Koffman and interest repaid by the Company were approximately HK$19,780,000 and HK$194,000 respectively. Details of the agreement of this loan was set out in the Company's announcement dated 26 June 2012.

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

37. SUBSIDIARIES

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

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

38. AUTHORISATION FOR ISSUE OF CONSOLIDATED FINANCIAL STATEMENTS

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

6. AUDITED FINANCIAL INFORMATION

For the six months ended 31 December 2012

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the three months and six months ended 31 December 2012

		For the three months ended 31 December		For the six months ended 31 December	
		2012	2011	**2012**	2011
		(Unaudited)	(Unaudited)	**(Audited)**	(Unaudited)
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Turnover	6	**865**	—	**4,394**	—
Cost of sales		**(2,282)**	—	**(6,779)**	—
Gross loss		**(1,417)**	—	**(2,385)**	—
Other revenue		**—**	—	**2**	—
Selling and distribution costs		**(596)**	—	**(649)**	—
Administrative expenses		**(4,937)**	(1,076)	**(8,891)**	(2,015)
Impairment loss recognised in respect of intangible assets		**—**	—	**—**	(7,488)
Impairment loss recognised in respect of deposits, prepayments and other receivables		**(90)**	489	**(90)**	(229,445)
Gain on de-consolidation of subsidiaries	23	**—**	—	**—**	155,547
Finance costs	7	**(872)**	—	**(1,545)**	—
Loss before taxation		**(7,912)**	(587)	**(13,558)**	(83,401)
Income tax expense	9	**—**	—	**—**	—
Loss for the period	8	**(7,912)**	(587)	**(13,558)**	(83,401)
Other comprehensive income					
Item that may be reclassified subsequently to profit or loss:					
Release of translation reserve upon de-consolidation of subsidiaries		**—**	—	**—**	4
Other comprehensive income for the period		**—**	—	**—**	4
Total comprehensive expenses for the period		**(7,912)**	(587)	**(13,558)**	(83,397)
Loss for the period attributable to:					
Owners of the Company		**(7,912)**	(587)	**(13,558)**	(83,401)
Total comprehensive expenses for the period attributable to:					
Owners of the Company		**(7,912)**	(587)	**(13,558)**	(83,397)
Loss per share *(HK cent(s))*	11				
— Basic and diluted		**(0.60)**	(0.04)	**(1.03)**	(6.45)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Notes	At 31 December 2012 (Audited) HK$'000	At 30 June 2012 (Audited) HK$'000
Non-current assets			
Intangible assets	12	—	—
Property, plant and equipment	13	**7,014**	3,156
		7,014	3,156
Current assets			
Inventories	14	**1,025**	1,943
Trade receivables	15	**99**	—
Deposits, prepayments and other receivables	16	**41,493**	52,272
Bank balances and cash	17	**301**	308
		42,918	54,523
Current liabilities			
Amount due to a former director		**64**	64
Deposits from customers	18	**55**	551
Trade payables	19	**7**	—
Accruals and other payables	20	**5,984**	11,451
Obligation under financial leases		**110**	105
Other borrowing	21	**31,403**	19,586
		37,623	31,757
Net current assets		**5,295**	22,766
Total assets less current liabilities		**12,309**	25,922
Non-current liability			
Obligation under financial leases		**394**	449
Net assets		**11,915**	25,473
Equity attributable to owners of the Company			
Share capital	22	**131,220**	131,220
Reserves		**(119,305)**	(105,747)
Total equity		**11,915**	25,473

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2012

	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 (audited)	120,220	170,269	22,734	(4)	(203,449)	109,770
Loss for the period	—	—	—	—	(83,401)	(83,401)
Other comprehensive income for the period:						
Release of translation reserve upon de-consolidation of subsidiaries	—	—	—	4	—	4
Total comprehensive expenses for the period	—	—	—	4	(83,401)	(83,397)
Issue of shares pursuant to the subscription agreements dated 27 July 2011	11,000	5,500	—	—	—	16,500
Transaction costs attributable to issue of new shares	—	(412)	—	—	—	(412)
At 31 December 2011 (unaudited)	131,220	175,357	22,734	—	(286,850)	42,461
At 1 July 2012 (audited)	**131,220**	**175,357**	**22,734**	**—**	**(303,838)**	**25,473**
Loss for the period	**—**	**—**	**—**	**—**	**(13,558)**	**(13,558)**
Total comprehensive expense for the period	**—**	**—**	**—**	**—**	**(13,558)**	**(13,558)**
At 31 December 2012 (audited)	**131,220**	**175,357**	**22,734**	**—**	**(317,396)**	**(11,915)**

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.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 31 December	
	2012	2011
	(Audited)	(Unaudited)
	HK$'000	*HK$'000*
Net cash used in operating activities	**(7,285)**	(17,363)
Net cash used in investing activities	**(4,489)**	—
Net cash generated from financing activities	**11,767**	16,088
Net decrease in cash and cash equivalents	**(7)**	(1,275)
Cash and cash equivalents at the beginning of the period	**308**	1,436
Cash and cash equivalents at the end of the period	**301**	161
Analysis of balances of cash and cash equivalents		
Bank balances and cash	**301**	161

NOTES TO THE INTERIM FINANCIAL INFORMATION

1. GENERAL INFORMATION

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

The interim financial information are presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of the Company and all values are rounded to the nearest thousand ("HK$'000") except otherwise indicated.

The Company's principal activity is investment holding and the principal activities of its principal subsidiaries are developing, distributing and marketing of personal care treatment, products and services.

2. BASIS OF PREPARATION AND CONSOLIDATION

The interim financial information for the six months ended 31 December 2011 and 2012 have been prepared in accordance with the applicable disclosure requirements set out in Chapter 18 to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and Hong Kong Accounting Standards ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The interim financial information do not include all the information and disclosure required in the annual financial statements, and should be read in conjunction with the Group's annual report for the year ended 30 June 2012 (the "2012 Financial Statements").

Going concern basis

These interim financial information have been prepared on a going concern basis notwithstanding that the Group incurred a loss attributable to the owners of the Company of approximately HK$13,558,000 for the six months ended 31 December 2012, which indicates the existence of a material uncertainty and may cast significant doubt about the Group's ability to continue as a going concern.

The Directors of the Company 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 interim financial information have been prepared on a going concern basis. The validity of the going concern assumption on which the interim financial information are prepared is dependent on the favorable outcomes of (i) the repayment of the amounts due from the Unconsolidated Subsidiaries (as defined below) of approximately HK$36,450,000 of which details were set out in the Company's announcement dated 29 January 2013; (ii) the extension of repayment of loan facility of approximately HK$31,403,000 granted by a company owned by an executive Director of which details were set out in the Company's announcement dated 2 April 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 announcement dated 21 March 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 announcement dated 21 March 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 the waiver to be granted 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;

(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 of Directors 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 the waiver by the SFC; and

(g) the capital reorganisation having become effective.

The completion of the conditional 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 holdings 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 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 interim financial information 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 interim financial information on a going concern basis.

The applicability of the going concern basis depends on the outcomes of the Proposed Plans, which the eventual outcome is uncertain, and the Group's ability to generate sufficient funds to meet its future working capital requirements and financial obligations when they fall due. The interim financial information 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 interim financial information 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 interim financial information.

Investments in unconsolidated subsidiaries

The interim financial information for the six months ended 31 December 2012 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"), Clapton Holdings Limited, Blu Spa International Limited and Blu Spa Management Services Limited (collectively referred to as the "Unconsolidated Subsidiaries"), have not provided complete documentary information and reasonable explanation in respect of the transactions asserted to have been undertaken. The Directors have not been able to obtain complete documentary information to satisfy themselves regarding the accounting treatments in respect of those transactions for the six months ended 31 December 2012 and for the year ended 30 June 2012.

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. 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.

Furthermore, as set out in the Company's announcement dated 9 April 2013, a firm of independent forensic accountants was engaged 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"). Based on the result of the Forensic Investigation, the directors of the Company concluded that, among other things, 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 BSHK Group.

Given these circumstances, the directors have not consolidated the financial statements of the Unconsolidated Subsidiaries in these interim financial information. 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 2012 Financial Statements. Moreover, at 31 December 2012 and 30 June 2012, the amounts due from the Unconsolidated Subsidiaries to the Group of approximately HK$279,460,000 and HK$288,303,000 respectively, among which approximately HK$90,000 and HK$240,593,000 respectively was considered not recoverable and impairment losses had been recognised for the six months ended 31 December 2012 and in the 2012 Financial Statements respectively.

In the opinion of the Directors, these interim financial information and the 2012 Financial Statements 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 were not in compliance with the requirements of Hong Kong Accounting Standard 27 (Revised) "Consolidated and Separate Financial Statements".

3. ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the interim financial information for the six months ended 31 December 2012 requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and key sources of uncertainty were the same as those applied in the preparation of the 2012 Financial Statements.

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

The accounting policies used in the preparation of the interim financial information for the six months ended 31 December 2012 are consistent with those used in the 2012 Financial Statements, except for the adoption of the revised HKFRSs as of 1 July 2012 as noted below.

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

The adoption of the new and revised HKFRSs has no material effect on these interim financial information.

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

Annual Improvements 2009–2011 Cycle	Amendments to a number of HKFRSs issued in June 2012[1]
HKFRS 1 (Amendments)	Amendments to HKFRS 1 First Time Adoption of Hong Kong Financial Reporting Standards — Government Loans[1]
HKFRS 7 (Amendments)	Disclosures — Offsetting Financial Assets and Financial Liabilities[1]
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosure[3]
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 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 19 (2011)	Employee Benefits[1]
HKAS 27 (2011)	Separate Financial Statements[1]
HKAS 28 (2011)	Investments in Associates and Joint Ventures[1]
HKAS 32 (Amendments)	Presentation — Offsetting Financial Assets and Financial Liabilities[2]
HK(IFRIC) — Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

[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

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.

5. SEGMEMT 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

For the six months ended 31 December 2012

OPERATING SEGMENT	**Sales of beauty equipment (Audited)** *HK$'000*	**Sales of beauty products (Audited)** *HK$'000*	**Therapy services (Audited)** *HK$'000*	**Consolidated (Audited)** *HK$'000*
REVENUE				
Revenue from external customers	**1,140**	**1,736**	**1,518**	**4,394**
RESULTS				
Segment profit (loss) for reportable segment	**72**	**(2,493)**	**(613)**	**(3,034)**
Other revenue				**2**
Unallocated administrative expenses				**(8,891)**
Finance costs				**(1,545)**
Loss before tax				**(13,468)**
Income tax expense				**—**
Core loss for the year				**(13,468)**
MAJOR NON-CASH ITEMS				
— Impairment loss recognised in respect of deposits, prepayments and other receivables				**(90)**
				(13,558)

For the six months ended 31 December 2011

OPERATING SEGMENT	Sales of beauty equipment (Unaudited) *HK$'000*	Sales of beauty products (Unaudited) *HK$'000*	Therapy services (Unaudited) *HK$'000*	Consolidated (Unaudited) *HK$'000*
REVENUE				
Revenue from external customers	—	—	—	—
RESULTS				
Segment profit (loss) for reportable segment	—	—	—	—
Other revenue				—
Unallocated administrative expenses				(2,015)
Finance costs				—
Loss before tax				(2,015)
Income tax expense				—
Core loss for the year				(2,015)
MAJOR NON-CASH ITEMS				
— Impairment loss recognised in respect of intangible assets				(7,488)
— Impairment loss recognised in respect of deposits, prepayments and other receivables				(229,445)
— Gain on de-consolidation of subsidiaries				155,547
				(83,401)

Segment assets

For the six months ended 31 December 2012

OPERATING SEGMENT	**Sales of beauty equipment (Audited) *HK$'000***	**Sales of beauty products (Audited) *HK$'000***	**Therapy services (Audited) *HK$'000***	**Consolidated (Audited) *HK$'000***
ASSETS				
Segment assets	—	856	2,068	2,924
Unallocated corporate assets				47,008
Consolidated total assets				49,932

For the six months ended 31 December 2011

OPERATING SEGMENT	Sales of beauty equipment (Unaudited) *HK$'000*	Sales of beauty products (Unaudited) *HK$'000*	Therapy services (Unaudited) *HK$'000*	Consolidated (Unaudited) *HK$'000*
ASSETS				
Segment assets	—	—	—	—
Unallocated corporate assets				49,108
Consolidated total assets				49,108

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

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

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

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

Geographical information

The Group mainly operated in Hong Kong after de-consolidation of the Unconsolidated Subsidiaries.

Information about major customer

No other single customer contributed 10% or more to the Group's revenue for the six months ended 31 December 2012 and 31 December 2011.

6. TURNOVER

	For the three months ended 31 December		**For the six months ended 31 December**	
	2012	2011	**2012**	2011
	(Unaudited)	(Unaudited)	**(Audited)**	(Unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Sales of beauty equipment	**—**	—	**1,140**	—
Sales of beauty products	**427**	—	**1,736**	—
Therapy services	**438**	—	**1,518**	—
	865	—	**4,394**	—

7. FINANCE COSTS

	For the three months ended 31 December		For the six months ended 31 December	
	2012	2011	**2012**	2011
	(Unaudited)	(Unaudited)	**(Audited)**	(Unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Interest expenses on other borrowing *(Note)*	**866**	—	**1,532**	—
Interest expenses on finance lease	**6**	—	**13**	—
	872	—	**1,545**	—

Note:

Interest expenses on other borrowing were interest expenses on the loan advanced by Koffman Investment Limited ("Koffman"), in which Mr. Yu Shu Kuen, an executive Director, managing Director and the Chairman, is the ultimate beneficial owner, with a term of 3 months from 27 March 2012 at interest rate of 12% per annum. On 26 June 2012, 26 September 2012, 26 October 2012 and 26 November 2012, 7 December 2012, 31 December 2012, 15 January 2013, 31 January 2013, 28 February 2013 and 2 April 2013, the Company has entered into ten supplementary loan agreements with Koffman to extend the repayment date of the above loan from 27 June 2012 to 30 April 2013. Details of which were set out in note 26 (a).

8. LOSS FOR THE PERIOD

	For the three months ended 31 December		For the six months ended 31 December	
	2012	2011	**2012**	2011
	(Unaudited)	(Unaudited)	**(Audited)**	(Unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Loss for the period before tax has been arrived at after (charging) crediting				
Staff costs including directors' remunerations	**(3,155)**	(810)	**(5,967)**	(1,407)
Depreciation of property, plant and equipment	**(384)**	—	**(632)**	—
Impairment loss recognised in respect of intangible assets	**—**	—	**—**	(7,488)
Impairment loss recognised in respect of deposits, prepayments and other receivables	**(90)**	489	**(90)**	(229,445)
Gain on de-consolidation of subsidiaries	**—**	—	**—**	155,547
Provision of inventories	**(19)**	—	**(19)**	—

9. INCOME TAX EXPENSE

(i) No provision for Hong Kong Profits Tax has been made as the Group has no assessable profits in Hong Kong or the estimated assessable profit was wholly absorbed by tax losses brought forward for the six months ended 31 December 2012 (2011: Nil).

(ii) No provision for overseas income tax was made as the Company's overseas subsidiaries did not have taxable income for the six months ended 31 December 2012 (2011: Nil).

(iii) The Group had no significant unprovided deferred tax assets and liabilities at 31 December 2012 (2011: Nil).

10. DIVIDEND

The Directors did not recommend payment of interim dividend for the six months ended 31 December 2012 (31 December 2011: Nil).

11. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss attributable to owners of the Company for the three months ended 31 December 2012 of approximately HK$7,912,000 (2011: loss attributable to owners of the Company of approximately HK$587,000) and loss attributable to owners of the Company for the six months ended 31 December 2012 of approximately HK$13,558,000 (2011: loss attributable to owners of the Company of approximately HK$83,401,000) and the weighted average of 1,312,200,000 shares in issue during the three months ended 31 December 2012 (2011: 1,312,200,000 shares) and the weighted average of 1,312,200,000 shares in issue during the six months ended 31 December 2012 (2011: 1,291,276,087 shares).

12. INTANGIBLE ASSETS

	(Audited) *HK$'000* Trademark
Cost	
At 1 July 2011, 30 June 2012 and 31 December 2012	18,720
Accumulated amortisation and impairment	
At 1 July 2011	11,232
Impairment loss recognised	7,488
At 30 June 2012 and 1 July 2012 and 31 December 2012	18,720
Carrying amounts	
At 31 December 2012	—
At 30 June 2012	—

Intangible asset represents the trademarks "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 on trademark

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

13. PROPERTY, PLANT AND EQUIPMENT

	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 Unconsolidated Subsidiaries *(note 23)*	(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	478	3,543	1,072	—	5,093
Disposals	(523)	—	(136)	—	(659)
At 31 December 2012	**485**	**4,806**	**1,814**	**611**	**7,716**
Accumulated depreciation and impairment					
At 1 July 2011	429	749	620	135	1,933
De-consolidation of Unconsolidated Subsidiaries *(note 23)*	(429)	(749)	(620)	(135)	(1,933)
Charge for the year	14	42	29	41	126
Disposals	—	—	—	—	—
At 30 June 2012 and 1 July 2012	14	42	29	41	126
Charge for the period	56	362	153	61	632
Disposals	(43)	—	(13)	—	(56)
At 31 December 2012	**27**	**404**	**169**	**102**	**702**
Carrying amounts					
At 31 December 2012 (audited)	**458**	**4,402**	**1,645**	**509**	**7,014**
At 30 June 2012 (audited)	516	1,221	849	570	3,156

Included in the carrying amounts of furniture, fixture and equipment and motor vehicle of approximately HK$36,000 and HK$509,000 respectively are the assets under finance leases.

14. INVENTORIES

	At 31 December 2012 (Audited) *HK$'000*	At 30 June 2012 (Audited) *HK$'000*
Raw materials	—	33
Finished goods	**1,044**	1,910
Less: Provision of inventories	**(19)**	—
	1,025	1,943

Movements in write down of inventories:

	At 31 December 2012 (Audited) HK$'000	At 30 June 2012 (Audited) HK$'000
Balance at the beginning of the reporting period	—	(449)
De-consolidation of the Unconsolidated Subsidiaries	—	449
Provision of inventories during the reporting period	(19)	—
	(19)	—

15. TRADE RECEIVABLES

	At 31 December 2012 (Audited) HK$'000	At 30 June 2012 (Audited) HK$'000
Trade receivables	99	—

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.

Group allows credit period ranging from one month to four months to its customers. Details of the ageing analysis of the trade receivables is as follows:

	At 31 December 2012 (Audited) HK$'000	At 30 June 2012 (Audited) HK$'000
0–60 days	91	—
61–120 days	8	—
	99	—

16. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	At 31 December 2012 (Audited) *HK'000*	At 30 June 2012 (Audited) *HK$'000*
Deposits	**4,793**	6,311
Less: Impairment loss recognised	**—**	(2,500)
Less: Written off as uncollectible during the period	**(2,500)**	—
	2,293	3,811
Prepayments	**231**	377
Less: Impairment loss recognised	**—**	—
	231	377
Other receivables	**5,192**	5,374
Less: Impairment loss recognised	**—**	(5,000)
Less: Written off as uncollectible during the period	**(5,000)**	—
	192	374
Amounts due from Unconsolidated Subsidiaries *(Note)*	**279,460**	288,303
Less: Impairment loss recognised	**(240,683)**	(240,593)
	38,777	47,710
	41,493	52,272

Note:

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

17. BANK BALANCES AND CASH

	At 31 December 2012 (Audited) *HK'000*	At 30 June 2012 (Audited) *HK$'000*
Cash at bank and on hand	**301**	308

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.

18. DEPOSITS FROM CUSTOMERS

	At 31 December 2012 (Audited) *HK'000*	At 30 June 2012 (Audited) *HK$'000*
Deposits from customers	**55**	551

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

19. TRADE PAYABLES

	At 31 December 2012 (Audited) *HK'000*	At 30 June 2012 (Audited) *HK$'000*
Trade payables	**7**	—

The Group normally obtains credit terms ranging from one month to three months from its suppliers.

Details of the ageing analysis of the trade payables is as follows:

	At 31 December 2012 (Audited) *HK'000*	At 30 June 2012 (Audited) *HK$'000*
0–30 days	**7**	—

20. ACCRUALS AND OTHER PAYABLES

	At 31 December 2012 (Audited) *HK$'000*	At 30 June 2012 (Audited) *HK$'000*
Accruals	**3,145**	2,849
Other payables	**1,509**	2,356
Amounts due to the Unconsolidated Subsidiaries (Note)	**1,330**	6,246
	5,984	11,451

Note:

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

21. OTHER BORROWING

	At 31 December 2012 (Audited) HK$'000	At 30 June 2012 (Audited) HK$'000
Within one year	**31,403**	19,586

Included in other borrowing of approximately HK$31,403,000 was a loan advanced by Koffman with a term of 3 months from 27 March 2012 at interest rate of 12% per annum. On 26 June 2012, 26 September 2012, 26 October 2012, 26 November 2012, 7 December 2012, 31 December 2012, 15 January 2013, 31 January 2013, 28 February 2013 and 2 April 2013, the Company has entered into ten supplementary loan agreements with Koffman to extend the repayment date of the above loan from 27 June 2012 to 30 April 2013. Details of which were set out in note 26 (a).

22. SHARE CAPITAL

	Number of shares	*HK$'000*
Authorised:		
At 1 July 2011, 30 June 2012 and 31 December 2012	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	110,000,000	11,000
At 30 June 2012, 1 July 2012 and 31 December 2012	1,312,200,000	131,200

23. DE-CONSOLIDATION OF SUBSIDIARIES

Save as disclosed in note 2 of the interim financial information, the Directors have resolved that the Unconsolidated Subsidiaries shall be treated as having been de-consolidated from that of the Group with effect from 1 July 2011.

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

(a) The BSHK Group

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

(b) Clapton Holdings Limited

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

(c) Blu Spa Management Services Limited

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

(d) Blu Spa International Limited

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

24. OPERATING LEASE COMMITMENT

At the end of the reporting period, the Group was committed to make the following future minimum lease payments in respect of office and retail shops properties with lease terms under non-cancellable operating leases which are payable as follows:

	At 31 December 2012 (Audited)	At 30 June 2012 (Audited)
	HK$'000	*HK$'000*
Within one year	**3,964**	3,816
In the second to fifth years, inclusive	**2,268**	3,594
over five years	**—**	—
	6,232	7,410

25. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed in elsewhere to the interim financial information, the Group had the following material transactions with related parties during the period:

Name of party	Nature of transactions	For the six months ended 31 December 2012 (Audited) *HK$'000*	2011 (Unaudited) *HK$'000*
During the period, the Group entered into the following transactions with related parties:			
Koffman *(Note 1)*	Loan	**12,625**	—
	Settlement of Loan interest	**1,539**	—
BSHK *(Note 2)*	Sales of beauty equipments	**603**	—
The following balance was outstanding at the end of the reporting period:			
Koffman *(Note 1)*	Loan	**31,403**	—

Notes:

(1) Mr. Yu Shu Kuen, an executive Director, managing Director and the Chairman, is the ultimate beneficial owner of Koffman. Details of the transactions were set out in note 21 to the interim financial information.

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

Compensation for key management personnel

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

	For the six months ended 31 December 2012 (Audited) *HK$'000*	2011 (Unaudited) *HK$'000*
Short-term employee benefits	**684**	1,407
Post employment benefits	**8**	—
	692	1,407

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

26. EVENTS AFTER REPORTING PERIOD

Saved as disclosed elsewhere in the interim financial information, the Group had the following material transactions after the end of the reporting period:

(a) On 15 January 2013, 31 January 2013, 28 February 2013 and 2 April 2013 the Company has entered into four supplementary loan agreements with Koffman to extend the repayment date of the above loan from 27 June 2012 to 30 April 2013. Details of the agreement were set out in the Company's announcements 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 and 2 April 2013.

(b) On 29 January 2013, the Company entered into a deed of assignment ("Deed of Assignment") with BSHK, which is a de-consolidated subsidiary of the Company, and a second deed of settlement (the "Second Deed") with BSHK and Mr. Shum Yeung ("Mr. Shum") in relation to the writ of summons (the "Writ") issued in the High Court of Hong Kong by BSHK on 25 September 2012.

(i) Pursuant to the Deed of Assignment, BSHK assigned and transferred to the Company all its right, title, interest and obligation under the deed of termination dated 5 April 2012 and four repayment extension agreements dated 4 July 2012, 24 July 2012, 3 August 2012 and 21 August 2012 respectively, in the consideration of HK$36,450,000 ("the Outstanding Principal Sum") to be paid by the Company to BSHK. Details of which were set out in the Company's announcement dated 5 April 2012, 4 July 2012, 24 July 2012, 3 August 2012, 21 August 2012, 28 September 2012, 26 October 2012, 1 November 2012, 21 December 2012 and 29 January 2013.

(ii) Pursuant to the Second Deed, BSHK, the Company and Mr. Shum agreed to settle the claims under the Writ and the Outstanding Principal Sum on the following terms:

(1) HK$1,822,500.00 payable to the Company on or before 29 January 2013;

(2) HK$389,465.70 payable to the Company on or before 29 January 2013;

(3) HK$1,736,118.49 payable on or before 29 January 2013;

(4) HK$120,000.00 payable to the Company on or before 29 January 2013; and

(5) HK$34,627,500.00 payable on or before 31 March 2013.

On 29 January 2013, the Company received HK$4,068,084.19 from Mr. Shum to settle the claims in accordance with the terms set out in the Second Deed.

(c) On 1 February 2013, EDS (Asia) Limited, an indirect wholly-owned subsidiary of the Company has entered into a tenancy agreement with Koffman Corporate Service Limited, of which Mr. Yu Shu Kuen, an executive Director, managing Director and Chairman of the Company, is the ultimate beneficial owner. Details of which were set out in the Company's announcement dated 1 February 2013.

(d) On 28 February 2013, a special resolution was passed at an extraordinary general meeting and an approval was obtained from the shareholders for approving the following events of the Company:

(i) to approve the amendment to the articles of association of the Company, the change of domicile and the adoption of the memorandum of continuance and the Bye-law, details of which were set out in resolution no.1 of the notice of extraordinary general meeting dated 24 January 2013 in the Company's announcement.

(ii) to approve the creation of the contributed surplus account, the cancellation and transfer of share premium account and the authorisation, details of which were set out in resolution no.2 of the notice of extraordinary general meeting dated 24 January 2013 in the Company's announcement.

(iii) to approve the capital reorganisation (involving the capital reduction and capital consolidation), details of which were set out in resolution no.3 of the notice of extraordinary general meeting dated 24 January 2013 in the Company's announcement.

(iv) to approve the change of Company name, details of which were set out in resolution no.4 of the notice of extraordinary general meeting dated 24 January 2013 in the Company's announcement.

Details of the announcement related to the (1) change of domicile; (2) capital reorganisation; (3) change of Company name; and (4) notice of extraordinary general meeting were set out in the Company announcements/ circular dated 20 December 2012, 8 January 2013, 9 January 2013, 23 January 2013, 28 February 2013, 1 March 2013, 17 April 2013 and 19 April 2013.

(e) On 13 March 2013, Eternity Investment Limited ("Eternity") and its subsidiaries (the "Eternity Group") and the Company made a joint announcement regarding the negotiations for a potential subscription ("Potential Subscription") by the Eternity Group for convertible bonds be issued by the Company. Up to the date of the report, no definitive agreement in relation to the Potential Subscription has been entered between the Eternity Group and the Company.

On 21 March 2013, the Company and New Cove Limited, a company incorporated in the British Virgin Island with limited liability and an indirect wholly-owned subsidiary of Eternity, entered into the subscription agreement in respect of the issue of the convertible bonds in the principal amount of HK$40,000,000. Completion of the subscription agreement is subject to the conditions as set out in the announcement. The issue of the convertible bonds and the conversion shares to be allotted and issued upon the exercise of the conversion rights attaching to the convertible bonds will be subjected to a specific mandate to be approved by the independent shareholders at the extraordinary general meeting of the Company. Details of the announcement were disclosed in the Company's announcement dated 13 March 2013 and 21 March 2013.

(f) On 21 March 2013, the Company and Hong Kong Builders Finance Limited (the "Lender"), a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of Eternity, entered into the loan agreement, the Lender has conditionally agreed to grant an unsecured loan in the principal amount of HK$40,000,000 to the Company for a term of three years from the date of drawdown. Completion of the loan agreement will be conditional upon the completion of the Subscription Agreement and also be subject to the independent shareholders at the extraordinary general meeting of the Company. Details of the announcement were disclosed in the Company's announcement dated 21 March 2013.

On 2 April 2013, the Company established an independent board committee, which comprises Mr. Du Juanhong, Mr. Tam B Ray Billy, Mr. Chu Kin Wang Peleus and Mr. Tse Joseph, in compliance with Rule 2.8 of the Takeovers Code to advice the independent shareholders as to whether the Subscription Agreement and the transactions contemplated.

The Company has appointed New Spring Capital Limited as the independent financial adviser to advise the independent board committee and the independent shareholders in relation to the Subscription and the transaction contemplated.

Details of the announcement were disclosed in the Company's announcement dated 21 March 2013 and 2 April 2013.

(g) On 9 April 2013, the Company announced that the forensic report was issued on 28 September 2012 and the Company has submitted a copy of such report to the Stock Exchange on the even date. 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. Details of the announcement were disclosed in the Company's announcement on 28 September 2012 and 9 April 2013.

7. UNAUDITED FINANCIAL INFORMATION

For the nine months ended 31 March 2013

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months and nine months ended 31 March 2013

		For the three months ended 31 March		For the nine months ended 31 March	
		2013	2012	**2013**	2012
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	Notes	***HK'000***	*HK'000*	***HK'000***	*HK'000*
Turnover	4	**1,012**	—	**5,406**	—
Cost of sales		**(2,344)**	—	**(9,123)**	—
Gross loss		**(1,332)**	—	**(3,717)**	—
Other revenue		**1,738**	—	**1,740**	—
Selling and distribution costs		**(383)**	—	**(1,032)**	—
Administrative expenses		**(4,858)**	(548)	**(13,749)**	(2,563)
Impairment loss recognised in respect of intangible assets		**—**	—	**—**	(7,488)
Impairment loss recognised in respect of deposits, prepayments and other receivables		**—**	(8,647)	**(90)**	(238,092)
Gain on de-consolidation of subsidiaries		**—**	—	**—**	155,547
Finance costs	5	**(981)**	(99)	**(2,526)**	(99)
Loss before taxation		**(5,816)**	(9,294)	**(19,374)**	(92,695)
Income tax expense	7	**—**	—	**—**	—
Loss for the period	6	**(5,816)**	(9,294)	**(19,374)**	(92,695)
Other comprehensive income					
Release of translation reserve upon de-consolidation of subsidiaries		**—**	—	**—**	4
Other comprehensive income for the period		**—**	—	**—**	4
Total comprehensive expenses for the period		**(5,816)**	(9,294)	**(19,374)**	(92,691)
Loss for the period attributable to:					
Owners of the Company		**(5,816)**	(9,294)	**(19,374)**	(92,695)
Total comprehensive expense for the period attributable to:					
Owners of the Company		**(5,816)**	(9,294)	**(19,374)**	(92,691)
Loss per share *(HK cent(s))*	9				
— Basic and diluted		**(0.44)**	(0.71)	**(1.48)**	(7.14)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on the Stock Exchange. The addresses of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and principal place of business of the Company is 19/F., Prosperity Tower, No. 39 Queen's Road Central, Central, Hong Kong.

The unaudited condensed consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of the Company and all values are rounded to the nearest thousand ("HK$'000") except otherwise indicated.

The Company's principal activity is investment holding and the principal activities of its principal subsidiaries are developing, distributing and marketing of personal care treatment, products and services.

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

The accounting policies used in the unaudited condensed consolidated results for the nine months ended 31 March 2013 are consistent with those used in the annual financial statements of the Group for the year ended 30 June 2012, except for the impact of the adoption of the new and revised Hong Kong Accounting Standards ("HKASs"), HKFRSs and interpretations described below:

In the current period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

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

The adoption of the new and revised HKFRSs has no material effect on the unaudited condensed consolidated financial statements for the current or prior accounting period.

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

Annual Improvements 2009–2011 Cycle	Amendments to a number of HKFRSs issued in June 2012[1]
HKFRS 1 (Amendments)	Amendments to HKFRS 1 First Time Adoption of Hong Kong Financial Reporting Standards — Government Loans[1]
HKFRS 7 (Amendments)	Disclosures — Offsetting Financial Assets and Financial Liabilities[1]
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosure[3]
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 11 and HKAS 27 (Amendments)	Investment Entities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interest in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 19 (2011)	Employee Benefits[1]
HKAS 27 (2011)	Separate Financial Statements[1]
HKAS 28 (2011)	Investments in Associates and Joint Ventures[1]
HKAS 32 (Amendments)	Presentation — Offsetting Financial Assets and Financial Liabilities[2]
HK(IFRIC) — Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

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

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.

3. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

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

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

The accounting policies and basis of preparation adopted in the preparation of the unaudited condensed consolidated financial statements are consistent with those adopted in the annual financial statements for the year ended 30 June 2012.

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

Going concern basis

The unaudited condensed consolidated financial statements have been prepared on a going concern basis notwithstanding that the Group incurred a loss attributable to the owners of the Company of approximately HK$19,374,000 for the nine months ended 31 March 2013, which indicates the existence of a material uncertainty and may cast significant doubt about the Group's ability to continue as a going concern.

The Directors have given careful considerations 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 unaudited condensed consolidated financial statements have been prepared on a going concern basis. The validity of the going concern assumption on which the unaudited condensed consolidated financial statements are prepared is dependent on the favourable outcomes of (i) the repayment of the amount due from Mr. Shum Yeung of approximately HK$34,627,500 of which the details were set out in the Company's announcement dated 3 May 2013; (ii) the extension of repayment of a loan facility of approximately HK$36,700,000 granted by a company owned by an executive Director of which details were set out in the Company's announcement dated 30 April 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 announcement dated 21 March 2013; and (iv) the completion of the conditional unsecured loan agreement in the principal amount of HK$40,000,000 of which details are set out in the Company's announcement dated 21 March 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 allotment and issue of the conversion shares); and (ii) the grant of the waiver to be granted by the Securities and Futures 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;

(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 of Directors 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 the waiver by the SFC; and

(g) the capital reorganisation having become effective.

The completion of the conditional unsecured loan agreement in the principal amount of HK$40,000,000 ("Loan Agreement") is conditional upon 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 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 unaudited condensed consolidated financial statements of the Group have been prepared on a going concern basis on the basis that the Proposed Plans will be successfully completed.

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

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

Investments in unconsolidated subsidiaries

The unaudited condensed consolidated financial statements for the nine months ended 31 March 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"), Clapton Holdings Limited, Blu Spa International Limited and Blu Spa Management Services Limited (collectively referred to as the "Unconsolidated Subsidiaries"), have not provided complete documentary information and reasonable explanation in respect of the transactions asserted to have been undertaken. The Directors have not been able to obtain complete documentary information to satisfy themselves regarding the accounting treatments in respect of those transactions for the nine months ended 31 March 2012 and for the year ended 30 June 2012.

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. 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.

Furthermore, as set out in the Company's announcement dated 9 April 2013, a firm of independent forensic accountants was engaged 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"). Based on the result of the Forensic Investigation, the Directors concluded that, among other things, 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 which mainly concern the Group's operation involving BSHK Group.

Giver these circumstances, the Directors have not consolidated the financial statements of the Unconsolidated Subsidiaries in the unaudited condensed consolidated financial statements for the nine months ended 31 March 2013. 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 audited consolidated financial statements for the year ended 30 June 2012. Moreover, as at 31 March 2013 and 30 June 2012, the amounts due from the Unconsolidated Subsidiaries to the Group of approximately HK$241,835,000 and HK$288,303,000 respectively, among which approximately HK$90,000 and HK$240,593,000 respectively was considered not recoverable and impairment losses had been recognised in the unaudited condensed consolidated statement of profit or loss and other comprehensive income for the nine months ended 31 March 2013 and audited consolidated financial statements for the year ended 30 June 2012 respectively.

In the opinion of the Directors, the unaudited condensed consolidated financial statements for the nine months ended 31 March 2013 and the audited consolidated financial statements for the year ended 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 the result of the Forensic Investigation. However, the de-consolidation of the Unconsolidated Subsidiaries from the beginning of the year 1 July 2011 were not in compliance with the requirements of Hong Kong Accounting Standard 27 (Revised) "Consolidated and Separate Financial Statements".

4. TURNOVER

	For the three months ended 31 March		For the nine months ended 31 March	
	2013	2012	**2013**	2012
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK'000	*HK$'000*	***HK'000***	*HK$'000*
Sales of beauty equipment	**—**	—	**1,140**	—
Sales of beauty products	**595**	—	**2,331**	—
Therapy services	**417**	—	**1,935**	—
	1,012	—	**5,406**	—

5. FINANCE COSTS

	For the three months ended 31 March		For the nine months ended 31 March	
	2013	2012	**2013**	2012
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK'000	*HK$'000*	***HK'000***	*HK$'000*
Interest expenses on other borrowing	**973**	99	**2,505**	99
Interest expenses on finance lease	**8**	—	**21**	—
	981	99	**2,526**	99

6. LOSS FOR THE PERIOD

	For the three months ended 31 March		For the nine months ended 31 March	
	2013	2012	**2013**	2012
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK'000	*HK$'000*	***HK'000***	*HK$'000*
Loss for the period before tax arrived at after (charging) crediting				
Staff costs including directors' remunerations	**(2,818)**	466	**(8,785)**	(941)
Depreciation of property, plant and equipment	**(422)**	(10)	**(1,054)**	(10)
Impairment loss recognised in respect of intangible assets	**—**	—	**—**	(7,488)
Impairment loss recognised in respect of deposits, prepayments and other receivables	**—**	(8,647)	**(90)**	(238,092)
Gain on de-consolidation of subsidiaries	**—**	—	**—**	155,547
Provision of inventories	**—**	—	**(19)**	—

7. INCOME TAX EXPENSE

(i) No provision for Hong Kong Profits Tax has been made as the Group has no assessable profits in Hong Kong or the estimated assessable profit was wholly absorbed by tax losses brought forward for the nine months ended 31 March 2013 (2012: Nil).

(ii) No provision for overseas income tax was made as the Company's overseas subsidiaries did not have taxable income for the nine months ended 31 March 2013 (2012: Nil).

(iii) The Group had no significant unprovided deferred tax assets and liabilities at 31 March 2013 (2012: Nil).

8. DIVIDEND

The Directors did not recommend payment of any dividend for the nine months ended 31 March 2013 (2012: Nil).

9. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss attributable to owners of the Company for the three months ended 31 March 2013 of approximately HK$5,816,000 (2012: loss attributable to owners of the Company of approximately HK$9,294,000) and loss attributable to owners of the Company for the nine months ended 31 March 2013 of approximately HK$19,374,000 (2012: loss attributable to owners of the Company of approximately HK$92,695,000), and the weighted average of 1,312,200,000 shares in issue during the three months ended 31 March 2013 (2012: 1,312,200,000 shares) and the weighted average of 1,312,200,000 shares in issue during the nine months ended 31 March 2013 (2012: 1,298,200,000 shares).

Diluted loss per share for the three months and nine months ended 31 March 2013 and 2012 were the same as the basic loss per share as there were no diluting event during the periods.

10. RESERVES

	Share premium	Merger reserve	Translation reserve	Accumulated losses	Total
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2011	170,269	22,734	(4)	(203,449)	(10,450)
Loss for the period	—	—	—	(92,695)	(92,695)
Other comprehensive income for the period:					
Release of translation reserve upon de-consolidation of subsidiaries	—	—	4	—	4
Total comprehensive expenses for the period	—	—	4	(92,695)	(92,691)
Issue of shares pursuant to the subscription agreements dated 27 July 2011	5,500	—	—	—	5,500
Transaction costs attributable to issue of new shares	(412)	—	—	—	(412)
At 31 March 2012	175,357	22,734	—	(296,144)	(98,053)
At 1 July 2012	**175,357**	**22,734**	**—**	**(303,838)**	**(105,747)**
Loss for the period	**—**	**—**	**—**	**(19,374)**	**(19,374)**
Total comprehensive expense for the period	**—**	**—**	**—**	**(19,374)**	**(19,374)**
At 31 March 2013	**175,357**	**22,734**	**—**	**(323,212)**	**(125,121)**

11. MATERIAL RELATED PARTY TRANSACTIONS

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

Name of party	Nature of transactions	For the nine months ended 31 March 2013 (Unaudited) *HK$'000*	2012 (Unaudited) *HK$'000*
During the period, the Group entered into the following transactions with related parties:			
Koffman Investment Limited ("Koffman") *(Note 1)*	Loan	**19,205**	10,000
	Settlement of Loan interest	**2,511**	99
BSHK *(Note 2)*	Sales of beauty equipment	**603**	—
The following balance was outstanding at the end of the reporting period:			
Koffman *(Note 1)*	Loan	**36,700**	10,000

Notes:

(1) Mr. Yu Shu Kuen, an executive Director, managing Director and the Chairman, is the ultimate beneficial owner of Koffman.

(2) BSHK was de-consolidated on 1 July 2011.

Compensation for key management personnel

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

	For the nine months ended 31 March 2013 (Unaudited) *HK$'000*	2012 (Unaudited) *HK$'000*
Short-term employee benefits	**984**	873
Post employment benefits	**11**	—
	995	873

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

12. EVENTS AFTER REPORTING PERIOD

Saved as disclosed elsewhere in the unaudited condensed consolidated financial statements, the Group had the following material transactions after the end of the reporting period:

(a) On 2 April 2013 and 30 April 2013, the Company has entered into two supplementary loan agreements with Koffman to extend the repayment date of the above loan from 31 March 2013 to 31 May 2013. Details of the agreement were set out in the Company's announcements 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 and 30 April 2013.

(b) On 9 April 2013, the Company announced that the forensic report was issued on 28 September 2012 and the Company has submitted a copy of such report to the Stock Exchange on the even date. 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. Details of the announcement was set out in the Company's announcement on 28 September 2012 and 9 April 2013.

(c) 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 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. Details of the announcement was set out in the Company's announcement on 24 April 2013.

(d) On 25 April 2013, the Company announced that the Company agreed to accept Mr. Shum Yeung's repayment proposal for the settlement of the outstanding amount of HK$34,627,500.00 due to the Company from Mr. Shum Yeung. Details of the announcement was set out in the Company's announcement on 25 April 2013.

(e) On 3 May 2013, the Company announced that the Company received 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 from Mr. Shum Yeung. Upon further negotiations, the Company and Mr. Shum Yeung have principally agreed to a new repayment proposal for the outstanding balance of HK$34,627,500.00 and the interest accrued thereon due to the Company from Mr. Shum Yeung. Details of the announcement was set out in the Company's announcement on 3 May 2013.

8. INDEBTEDNESS STATEMENT

Statement of Indebtedness

Borrowings

At the close of business on 31 March 2013, being the latest practicable date for the purpose of this indebtedness statement prior to the print of this circular, the Group had the following outstanding borrowings:

(a) the borrowing from Mr. Yu Shu Kuen, an executive director and the chairman of the Company, of approximately HK$36,700,000.00 which is unsecured and interest-bearing.

(b) the obligation under finance leases including principal and interest of approximately HK$685,000.00 which is secured by the leased assets acquired and interest-bearing.

Contingent Liabilities

At the closing business on 31 March 2013, the Group did not have any material contingent liabilities.

General

Save as disclosed in the paragraph headed "Borrowings" in this section and apart from intra-group liabilities and normal trade payables, the Group did not have any outstanding mortgages, charges, debentures or other loan capital, bank drafts, bank overdraft, loans, debt securities or other similar indebtedness, liabilities under acceptance or acceptances credits, finance lease, or hire purchase commitments, guarantees or other material contingent liabilities at the close of business on 31 March 2013.

Working Capital

The Directors after due and careful enquiry, are of the opinion that, in the absence of unforeseeable and after taking into account of the net proceeds from the subscription of Convertible Bond, granting of the Loan and the internal resources of the Group, the Group has sufficient working capital for its normal business for at least the next 12 months from the date of publication of this circular.

9. MATERIAL CHANGE

Save as set out in this section below, the Directors confirm that there is no material change in the financial or trading position or outlook of the Group since 31 December 2012, being the date to which the latest published audited consolidated financial statements of the Group were made up and up to the Latest Practicable Date:

(a) As disclosed in the interim report of the Company for the six months ended 31 December 2012 (the "**Interim Report**"), which is reproduced in Appendix I of this circular, the Group recorded an amount due from an unconsolidated subsidiary, Blu Spa (Hong Kong) Limited ("**BSHK**"), in the sum of HK$38,868,000.00.

(i) On 29 January 2013, the Company announced that the Company entered into a deed of Assignment ("**Deed of Assignment**") with BSHK and a second deed of settlement (the "**Second Deed**") with BSHK and Mr. Shum Yeung ("**Mr. Shum**") in relation to the writ of summons (the "**Writ**") issued in the High Court of Hong Kong by BSHK on 25 September 2012. Pursuant to the Deed of Assignment, BSHK assigned and transferred to the Company all its right, title, interest and obligation under the deed of termination dated 5 April 2012 and four repayment extension agreements dated 4 July 2012, 24 July 2012, 3 August 2012 and 21 August 2012 respectively, in the consideration of HK$36,450,000.00 ("**the Outstanding Principal Sum**").

Pursuant to the Second Deed, BSHK, the Company and Mr. Shum agreed to settle the claims under the Writ and the Outstanding Principal Sum on the following terms:

(1) HK$1,822,500.00 payable to the Company on or before 29 January 2013;

(2) HK$389,465.70 payable to the Company on or before 29 January 2013;

(3) HK$1,736,118.49 payable to the Company on or before 29 January 2013;

(4) HK$120,000.00 payable to the Company on or before 29 January 2013; and

(5) HK$34,627,500.00 payable on or before 31 March 2013.

Details in relation to the Deed of Assignment and Second Deed were set out in the announcement of the Company dated 29 January 2013.

(ii) On 29 January 2013, the Company received HK$4,068,084.19 from Mr. Shum to settle the claims in accordance with the terms set out in the Second Deed.

(iii) On 31 March 2013, Mr. Shum defaulted to pay the HK$34,627,500.00 as stated in the Second Deed. On 22 April 2013, the Company agreed to accept the repayment proposal (the "**Repayment Proposal**") on the following terms:

(1) HK$34,627,500.00, (the "**New Balance**") payable to the Company on or before 30 April 2013;

(2) additional daily interest payable 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: 00 p.m. on 26 April 2013 and additional daily interest shall be payable to the Company from 26 April 2013 until actual payment on or before 30 April 2013; and

(3) the agreed legal costs of HK$20,000.00 payable to the Company on or before 30 April 2013.

Details in related to the Repayment Proposal were set out in the announcement of the Company dated 25 April 2013.

(iv) On 30 April 2013, the Company received 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 from the Defendant. Upon further negotiations, the Company and Mr. Shum have principally agreed to a new repayment proposal (the "**New Repayment Proposal**") in the following manner:

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

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

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

(4) HK$12,000,000.00 being the remaining balance of the New Balance 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 Mr. Shum's debts and liabilities under the legal proceedings. Dutfield undertakes that if and whenever Mr. Shum 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 Mr. Shum's debt due to the Company under the legal proceedings (the "**Guarantee and Undertakings**"). Details in relation to the New Repayment Proposal and the Guarantee and Undertakings were set out in the announcement of the Company dated 3 May 2013.

(b) As disclosed in the Interim Report, the sole director of BSHK decided to voluntarily wind-up BSHK. Written resolutions were passed by the sole director of BSHK to (i) voluntarily wind-up BSHK; and (ii) appoint joint and several provisional liquidators on 6 February 2013. Approximately HK$1.2 million impairment loss in relation to the amount due from BSHK will be recognised in the Group's consolidated financial statements. The Directors are of the view that the winding-up will not have any material adverse financial effect of the Group. The resolution for the voluntary winding-up of BSHK was subsequently passed by its sole shareholder on 26 February 2013. In addition, joint and several liquidators for the purpose of the winding-up of BSHK were appointed in the creditors' meeting held on 26 February 2013.

(c) The repayment date of the outstanding borrowing due to Koffman Investment Limited in relation to the loan facility of HK$50 million had been further extended to 31 May 2013, by entering of additional five supplementary loan agreements (the "**Supplementary Loan Agreements**") subsequent to 31 December 2012 and dated 15 January 2013, 31 January 2013, 28 February 2013, 2 April 2013 and 30 April 2013 respectively. Details of the Supplementary Loan Agreements have been set out in the announcements of the Company dated 15 January 2013, 31 January 2013, 28 February 2013, 2 April 2013 and 30 April 2013 respectively.

(d) As disclosed in the Interim Report, on 28 February 2013, special resolutions were passed at an extraordinary general meeting (the "**EGM**") and approvals were obtained from the shareholders for approving the following events of the Company:

(i) 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**"). As at the Latest Practicable Date, the Change of Domicile has not yet been completed.

(ii) 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. As at the Latest Practicable Date, the creation of contributed surplus account and cancellation of share premium account has not yet been completed.

(iii) after the Change of Domicile, to reorganise the capital of the Company, which involves the capital reduction and the capital consolidation (the "**Capital Reorganisation**"). As at the Latest Practicable Date, the Capital Reorganisation has not yet been completed.

(iv) 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. As at the Latest Practicable Date, the change of company name was effective.

Details in related to the above events were set out in announcements/circular of the Company dated 20 December 2012, 7 January 2013, 9 January 2013, 24 January 2013, 28 February 2013, 17 April 2013 and 19 April 2013 and 24 April 2013.

(e) As disclosed in the Interim Report, on 9 April 2013, the Company announced that the forensic report was issued on 28 September 2012 and the Company has submitted a copy of such report to the Stock Exchange on the even date. 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. Details of the announcement were disclosed in the Company's announcements on 28 September 2012 and 9 April 2013.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the GEM Listing Rules and the Takeovers Code for the purpose of giving information with regard to the Group and the Subscriber.

The Directors jointly and severally accept full responsibility for the accuracy of information contained in this circular (other than the information in relation to the Subscriber and the Subscriber Holding) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular (other than those expressed by the directors of the Subscriber and the Subscriber Holding) have been arrived at after due and careful consideration, and there are no other facts not contained in this circular the omission of which would make any statement in this circular misleading.

The directors of the Subscriber are Mr. Lei Hong Wai and Mr. Cheung Kwok Wai, Elton and the directors of the Subscriber Holding are Mr. Lei Hong Wai, Mr. Cheung Kwok Wai, Elton, Mr. Chan Kin Wah, Billy, Mr. Cheung Kwok Fan, Mr. Wan Shing Chi, Mr. Ng Heung Yan and Mr. Wong Tak Chuen.

The directors of the Subscriber and the Subscriber Holding jointly and severally accept full responsibility for the accuracy of information contained in this circular (other than the information in relation to the Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular (other than those expressed by the Directors) have been arrived at after due and careful consideration, and there are no other facts not contained in this circular the omission of which would make any statement in this circular misleading.

2. SHARE CAPITAL

Assuming the Capital Reorganisation has been completed, the authorised and issued share capital of the Company are as follows:

Authorised capital:		*HK$*
5,000,000,000	New Shares	500,000,000
Issued and to be issued:		
13,122,000	New Shares as at the Latest Practicable Date	1,312,200
40,000,000	Conversion Shares to be issued upon exercise of the conversion rights attached to the Convertible Bonds in full	4,000,000
53,122,000	Total issued ordinary share capital upon the full exercise of the conversion rights attaching to the Convertible Bonds	5,312,200

All the issued Shares are fully paid and rank pari passu in all respects including the rights as to voting, dividends and return of capital. The Conversion Shares to be allotted and issued will, when issued and fully paid, rank pari passu in all respects with the then existing New Shares in issue on the date of allotment of the Conversion Shares. The issued Shares are listed on GEM. No part of the securities of the Company is listed or dealt in, nor is listing or permission to deal in the securities of the Company being or proposed to be sought, on any other stock exchange.

Since 31 December 2012, being the date up to which the latest audited published financial statements of the Group were made, and up to the Latest Practicable Date, no Shares have been allotted and issued by the Company. As at the Latest Practicable Date, the Company had no convertible securities, derivatives or warrants outstanding and had not entered into any agreement (save for the Subscription Agreement) for the issue of any convertible securities, options, warrants or derivatives of the Company.

The share option scheme of the Company (the "**Share Option Scheme**") expired on 29 January 2012. No further options could thereafter be offered under the Share Option Scheme. As at the Latest Practicable Date, there was no outstanding option under the Share Option Scheme.

Save for the Convertible Bonds, the Company did not have any other derivatives, options, warrants or conversion rights affecting the Shares and no capital of any member of the Group was under option, or agreed to conditionally or unconditionally to be put under option as at the Latest Practicable Date.

3. INTERESTS OF DIRECTORS

(a) Director's and chief executive's interests in the Company

As at the Latest Practicable Date, the interests and short positions of the Directors or chief executives and their associates in the shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which would have to be notified to the Company or any of its associated corporations) and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or that was required to be recorded pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Name	Nature of interest	Number of Shares held	Approximately Percentage of the Company's issued share capital
Mr. Wang Xiaofei	Beneficial owner	230,400,000	17.56%
Mr. Du Juanhong ("**Mr. Du**")	Corporate interest	106,580,000 (Note)	8.12%

Note:

These shares were held by Hong Kong Wintek International Co., Limited ("**Wintek**") which was wholly-owned by Mr. Du who was appointed as a 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.

Save as disclosed in the preceding paragraph, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the GEM Listing Rules.

(b) Substantial shareholders and other persons' interests in Shares and underlying Shares

As at the Latest Practicable Date, according to the register kept by the Company pursuant to section 336 of SFO, and so far as is known to the Directors or chief executive of the Company, the following persons (other than a Director or a chief executive of the Company) had, or was deemed or taken to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 5% or more of the nominal value of any class of share capital, including options in respect of such capital, carrying voting rights to vote in all circumstances at general meeting of any member of the Group:

Name	Nature of interest	Number of Shares held	Approximately Percentage of the Company's issued share capital
Wintek *(Note)*	Beneficial owner	106,580,000	8.12%

Note:

Hong Kong Wintek International Co., Limited ("**Wintek**") is wholly-owned by Mr. Du. By virtue of the SFO, Mr. Du is deemed to be interested in the shares held by Wintek.

Save as disclosed in the preceding paragraph and so far as is known to the Directors or chief executive of the Company, there is no person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital, including options in respect of such capital, carrying rights to vote in all circumstances at general meeting of any other member of the Group.

4. DIRECTORS' SERVICE CONTRACTS

Pursuant to the appointment letter dated 5 March 2012 entered into between Mr. Du Juanhong and the Company, Mr. Du Juanhong was appointed as non-executive Director for a term of two years commencing from 5 March 2012. He is entitled to receive a remuneration of HK$120,000 per annum. There is no variable remuneration to be entitled by Mr. Du Juanhong under the appointment letter.

Pursuant to the appointment letter dated 5 March 2012 entered into between Mr. Chu Kin Wang, Peleus and the Company, Mr. Chu Kin Wang, Peleus was appointed as independent non-executive Director for a term of two years commencing from 5 March

2012. He is entitled to receive a remuneration of HK$120,000 per annum. There is no variable remuneration to be entitled by Mr. Chu Kin Wang, Peleus under the appointment letter.

Pursuant to the appointment letter dated 5 March 2012 entered into between Mr. Tam B Ray, Billy and the Company, Mr. Tam B Ray, Billy was appointed as independent non-executive Director for a term of two years commencing from 5 March 2012. He is entitled to receive a remuneration of HK$120,000 per annum. There is no variable remuneration to be entitled by Mr. Tam B Ray, Billy under the appointment letter.

Pursuant to the appointment letter dated 16 August 2012 entered into between Mr. Lee Chan Wah and the Company, Mr. Lee Chan Wah was appointed as executive Director for a term of two years commencing from 16 August 2012. Mr. Lee was employed as the financial controller and company secretary by the Group with effect from 6 February 2012 and 13 February 2012 respectively and he is entitled to receive remuneration under these positions. As such, he is not entitled to any fixed or variable remuneration under the appointment letter in respect of his directorship.

Pursuant to the appointment letter dated 16 August 2012 entered into between Mr. Tse Joseph and the Company, Mr. Tse Joseph was appointed as independent non-executive Director for a term of two years commencing from 16 August 2012. He is entitled to receive a remuneration of HK$120,000 per annum. There is no variable remuneration to be entitled by Mr. Tse Joseph under the appointment letter.

Save as disclosed in this section as at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group and/or associated companies of the Company (i) which (including both continuous and fixed term contracts) had been entered into or amended within the Relevant Period; (ii) which were continuous contracts with a notice period of 12 months or more; or (iii) which were fixed term contracts with more than 12 months to run irrespective of the notice period.

5. 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;

(c) the interest; and

(d) the costs.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

On 31 March 2013, the Defendant defaulted on the payment of the HK$34,627,500.00 as stated in the Second Deed of Settlement. On 22 April 2013, 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 4:00 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.

On 30 April 2013, the Company received 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 from the Defendant. 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:

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

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

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

4. HK$12,000,000.00 being the remaining balance of the New Balance 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 in respect of, 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.

Given that (i) the Defendant has shown his willingness to repay the amount owing to the Company and (ii) a guarantee has been provided by Dutfield and the Company estimates that the proceeds from the sale of the Mortgaged Property after settling the liabilities under the First Mortgage will be sufficient to settle all the outstanding amount owing by the Defendant to the Company, the Company is optimistic on the recovery of all the outstanding amount owing by the Defendant to the Company.

As at the Latest Practicable Date and save as disclosed in this section, neither the Company nor any of its subsidiaries was involved in any litigation or arbitration of material importance and no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

6. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinion or advice which is contained in this circular:

Name	**Qualification**
New Spring Capital Limited ("**New Spring Capital**")	Licenced corporation permitted to carry out type 6 (advising on corporate finance) regulated activity under the SFO

New Spring Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and its name in the form and context in which they respectively appear.

New Spring Capital does not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

New Spring Capital does not have any direct or indirect interests in any assets which have been, since 31 December 2012 (being the date to which the latest published audited consolidated accounts of the Group were made up), acquired or disposed of by or leased to, any member of the Group, or which are proposed to be acquired or disposed of by or leased to, any member of the Group.

7. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business carried on or intended to be carried on by the Company or any of its subsidiaries) have been entered into by the Company or any of its subsidiaries within the two years immediately preceding the date of the Announcement and are or may be material:

1. the Subscription Agreement;
2. the Loan Agreement;
3. Second Deed of Settlement;
4. Deed of Assignment;
5. Deed of Settlement;
6. Repayment Extension Agreements;
7. Deed of Termination;
8. the extension agreement dated 30 April 2013 and entered into between the Company as borrower and Koffman as lender to extend the term of the Loan Facilities (as defined below) to 31 May 2013;
9. the extension agreement dated 2 April 2013 and entered into between the Company as borrower and Koffman as lender to extend the term of the Loan Facilities (as defined below) to 30 April 2013;
10. the extension agreement dated 28 February 2013 and entered into between the Company as borrower and Koffman as lender to extend the term of the Loan Facilities (as defined below) to 31 March 2013;
11. the extension agreement dated 31 January 2013 and entered into between the Company as borrower and Koffman as lender to extend the term of the Loan Facilities (as defined below) to 28 February 2013;
12. the extension agreement dated 15 January 2013 and entered into between the Company as borrower and Koffman as lender to extend the term of the Loan Facilities (as defined below) to 31 January 2013;

13. the extension agreement dated 31 December 2012 and entered into between the Company as borrower and Koffman as lender to extend the term of the Loan Facilities (as defined below) to 15 January 2013;

14. the extension agreement dated 7 December 2012 and entered into between the Company as borrower and Koffman as lender to extend the term of the Loan Facilities (as defined below) to 31 December 2012;

15. the extension agreement dated 26 November 2012 and entered into between the Company as borrower and Koffman as lender to extend the term of the Loan Facilities (as defined below) to 7 December 2012;

16. the extension agreement dated 26 October 2012 and entered into between the Company as borrower and Koffman as lender to extend the term of the Loan Facilities (as defined below) to 26 November 2012;

17. the extension agreement dated 26 September 2012 and entered into between the Company as borrower and Koffman as lender to extend the term of the Loan Facilities (as defined below) to 26 October 2012;

18. the extension agreement dated 26 June 2012 and entered into between the Company as borrower and Koffman as lender to increase the Loan Facilities (as defined below) to HK$50 million and extend the term of the Loan Facilities to 26 September 2012;

19. the loan agreement dated 27 March 2012 and ended into between the Company as borrower and Koffman as lender in respect of the loan facilities (the "**Loan Facilities**") of up to HK$20 million at the interest rate of 12% per annum for a term of three months;

20. the loan agreement dated 8 February 2012 and entered into between the Company as borrower and Koffman as lender in respect of the loan facilities of up to HK$10 million at the interest rate of 10% per annum for a term of three months; and

21. a conditional placing agreement entered into between the Company and Orient Securities Limited as the placing agent dated 27 July 2011 in relation to the placing of a maximum of 110,000,000 Shares at a placing price of HK$0.5 per Share with a placing commission of 2.5% on the gross proceeds from the placing.

8. ADDITIONAL DISCLOSURE OF INTERESTS AND DEALINGS IN SECURITIES

As at the Latest Practicable Date:

(a) save for the Subscription, neither the Subscriber, the Subscriber Holding nor any parties acting in concert with any of them held any securities, options, warrants, convertible securities and derivatives of the Company or had dealt in the securities, options, warrants, convertible securities and derivatives of the Company during the Relevant Period;

(b) no Shares acquired by the Subscriber and any person acting in concert with it in pursuance of the Subscription will be transferred, charged or pledged to any other persons;

(c) save for the Subscription, the directors of the Subscriber and the directors of the Subscriber Holding are not interested in any securities, options, warrants, convertible securities and derivatives of the Company and they had not dealt for value in any securities, options, warrants, convertible securities and derivatives of the Company during the Relevant Period.

(d) no person had irrevocably committed themselves to vote for or against the resolutions to be proposed at the EGM to approve the Subscription and/or the Whitewash Waiver. Therefore, there is no such person who owns or controls any Shares.

(e) no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code existed between the Subscriber, the Subscriber Holding or any party acting in concert with any of them, and any other person. Therefore, there is no such person who owns or controls any Shares.

(f) no agreement, arrangement or understanding (including any compensation arrangement) existed between (i) the Subscriber or any party acting in concert with it; and (ii) any Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Subscription and/or the Whitewash Waiver.

(g) there were no agreements or arrangements to which the Subscriber is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a condition to the Subscription.

(h) the Company did not have any interest in the securities, options, warrants, convertible securities and derivatives of the Subscriber and the Subscriber Holding and had no dealings in the securities, options, warrants, convertible securities and derivatives of the Subscriber and the Subscriber Holding during the Relevant Period.

(i) none of the Directors had any interest in the securities, options, warrants, convertible securities and derivatives of the Subscriber and the Subscriber Holding.

(j) save for Mr. Wang Xiaofei, an executive Director, being interested in 230,400,000 Shares and Mr. Du Juanhong, a non-executive Director, is interested in 106,580,000 Shares, none of the Directors had any interest in the Shares, convertible securities, warrants, options or derivatives of the Company.

(k) none of the Directors had dealt for value in the securities, options, warrants, convertible securities and derivatives of the Company or the Subscriber or the Subscriber Holding during the Relevant Period.

(l) none of (i) the subsidiaries of the Company; (ii) the pension fund of the Company or of any of its subsidiaries; nor (iii) any adviser to the Company (as specified in class (2) of the definition of "associate" under the Takeovers Code), had any interest in the securities, options, warrants, convertible securities and derivatives of the Company and/or had dealt in the securities, options, warrants, convertible securities and derivatives of the Company during the Relevant Period.

(m) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code. Therefore, there is no such person who owns or controls any Shares.

(n) no securities, options, warrants, convertible securities and derivatives of the Company were managed on a discretionary basis by any fund managers connected with the Company, nor did any such fund managers deal in any securities, options, warrants, convertible securities and derivatives of the Company during the Relevant Period.

(o) during the Relevant Period, no securities, options, warrants, convertible securities and derivatives of the Company had been borrowed or lent by any of the Directors or by the Company or by the Subscriber, the Subscriber Holding or any party acting in concert with any of them.

(p) there was no agreement or arrangement between any of the Directors and any other person which was conditional or dependent on the outcome of the Subscription and/or the Whitewash Waiver or otherwise connected with the Subscription and/or the Whitewash Waiver.

(q) no benefit had been given or will be given to any Directors as compensation for loss of office or otherwise in connection with the Subscription and/or the Whitewash Waiver.

(r) Eternity Finance Group Limited, a wholly-owned subsidiary of the Subscriber Holding, is the holder of a zero coupon unsecured convertible note due 22 March 2015 in the principal amount of HK$27,000,000 issued by Koffman Corporate Service Limited which is wholly and beneficially owned by Mr. Yu pursuant to the subscription agreement dated 19 March 2012 and entered into between Eternity Finance Group Limited and Koffman Corporate Service Limited. Save for such subscription agreement, there was no material contract entered into by the Subscriber, the Subscriber Holding or any party acting in concert with any of them in which any Director had a material personal interest.

9. MARKET PRICE

At the request of the company, trading in the Shares has been suspended since 30 September 2011 and the closing market price of the Shares recorded on the Stock Exchange on 29 September 2011 was HK$0.161.

10. GENERAL

(a) The registered office and the correspondence address of the Subscriber are Palm Grove House, P.O. Box 438, Road Town, Tortola, British Virgin Islands and Unit 3811, Shun Tak Centre, West Tower, 168–200 Connaught Road Central, Hong Kong respectively. The registered office of the Subscriber Holding is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its principal place of business in Hong Kong is at Unit 3811, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong.

(b) The directors of the Subscriber are Mr. Lei Hong Wai and Mr. Cheung Kwok Wai, Elton. The directors of the Subscriber Holding are Mr. Lei Hong Wai, Mr. Cheung Kwok Wai, Elton, Mr. Chan Kin Wah, Billy; Mr. Cheung Kwok Fan, Mr. Wan Shing Chi, Mr. Ng Heung Yan and Mr. Wong Tak Chuen..

(c) The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and head office and principal place of business of the Company in Hong Kong is at 19/F., Prosperity Tower, No. 39 Queen's Road Central, Central, Hong Kong.

(d) The branch share registrar and transfer office of the Company in Hong Kong is 26th Floor, Tesbury Centre, 28 Queen's Road East, Wan Chai, Hong Kong.

(e) The company secretary of the Company is Mr. Lee Chan Wah.

(f) The registered office of the Independent Financial Adviser is 10/F Hip Shing Hong Centre, 55 Des Voeux Road Central, Central, Hong Kong.

(g) The business address of the Directors is 19/F., Prosperity Tower, No. 39 Queen's Road Central, Central, Hong Kong.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection (i) during normal business hours from 9:30 a.m. to 12:30 p.m. and from 2:30 p.m. to 5:30 p.m. on any weekday (except for Saturday and public holidays) at the head office and principal place of business of the Company in Hong Kong at 19/F., Prosperity Tower, No. 39 Queen's Road Central, Central, Hong Kong, (ii) on the website of the SFC at www.sfc.hk; and (iii) on the website of the Company at http://www.eds-wellness.com between the period from the date of this circular to the date of EGM (both days inclusive).

(a) the memorandum and articles of association of the Company;

(b) the memorandum and articles of association of the Subscriber;

(c) the annual reports of the Company for each of the two years ended 30 June 2011 and 30 June 2012;

(d) the first quarterly report for the three months ended 30 September 2012;

(e) the interim report for the six months ended 31 December 2012;

(f) the third quarterly report for the nine months ended 31 March 2013;

(g) the letter from the Board, the text of which is set out in this circular;

(h) the letter from the Independent Board Committee, the text of which is set out in this circular;

(i) the letter from the Independent Financial Adviser, the text of which is set out in this circular;

(j) the material contracts as referred to in the paragraph headed "Material contracts" in this appendix;

(k) the written consent referred to in the paragraph headed "Expert and consent" in this appendix;

(l) the appointment letters referred to in the section headed "Directors' service contracts" in this appendix; and

(m) this circular.

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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of EDS Wellness Holdings Limited (the "**Company**") will be held at 3/F, Woo Sing Kee Industrial Building, 138 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong on Tuesday, 11 June 2013 at 11:30 a.m. for the purposes of considering and, if thought fit, passing the following resolutions with or without amendments as resolutions of the Company:

ORDINARY RESOLUTIONS

1. "**THAT**

(a) the subscription agreement (the "**Subscription Agreement**") dated 21 March 2013 entered into between the Company and New Cove Limited (the "**Subscriber**") in relation to the subscription of the zero coupon convertible bonds (the "**Convertible Bonds**") in principal amount of HK$40,000,000 which can be converted into 40,000,000 conversion shares or such number of shares (as a result of any adjustment to the conversion price) which may fall to be allotted and issued upon exercise of the conversion right attaching to the Convertible Bonds (the "**Conversion Shares**") at the initial conversion price of HK$1.00 (subject to adjustment) (a copy of the Subscription Agreement is tabled at the meeting and marked "A" by the chairman of the meeting for identification purposes) and the transactions contemplated thereunder be and are hereby confirmed, approved and ratified;

(b) conditional upon the listing committee of the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in the Conversion Shares, the specific mandate granted to the directors of the Company to exercise the powers of the Company to allot, issue and deal with the Conversion Shares pursuant to the Subscription Agreement be and is hereby approved;

(c) any of the directors of the Company be and are hereby authorised for and on behalf of the Company to sign, seal, execute and deliver all such documents and deeds, and do all such acts, matters and things as they may in their discretion consider necessary or desirable to implement and/or effect the

* *For identification purpose only*

transactions contemplated by the Subscription Agreement, the allotment and issue of the Conversion Shares and the amendment, variation or modification of the terms and conditions of the Subscription Agreement on such terms and conditions as any of the directors of the Company may think fit."

2. "**THAT** the waiver granted or to be granted by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission pursuant to note 1 on dispensations for Rule 26 of the Hong Kong Code on Takeovers and Mergers waiving any obligation of the Subscriber and parties acting in concert with it to make a general offer to acquire the shares of the Company and all other securities of the Company in issue not already owned or agreed to be acquired by the Subscriber and parties acting in concert with it, as a result of the completion of the Subscription Agreement and the exercise of the conversion rights attaching to the Convertible Bonds be and is hereby approved."

3. "**THAT** the loan agreement dated 21 March 2013 (the "**Loan Agreement**") entered into between Hong Kong Builders Finance Limited as lender and the Company as borrower in respect of an unsecured loan in the principal amount of HK$40,000,000 (a copy of the Loan Agreement is tabled at the meeting and marked "B' by the chairman of the meeting for identification purposes) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified and any of the directors of the Company be and is hereby authorised to do all such things and acts and execute all documents which they consider necessary, desirable or expedient to implement or to give effect to any matters relating to or in connection with the Loan Agreement and the transactions contemplated thereunder"

Yours faithfully
For and on behalf of the Board of
EDS Wellness Holdings Limited
Yu Shu Kuen
Chairman

Hong Kong, 23 May 2013

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

Notes:

1. A member entitled to attend and vote at the extraordinary general meeting convened by the above notice is entitled to appoint one or, if he is a holder of more than one share, more proxies to attend and, subject to the provisions of the articles of association, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the extraordinary general meeting to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.

2. A form of proxy for use at the extraordinary general meeting is enclosed. Such form of proxy is also published on the website of The Stock Exchange of Hong Kong Limited at www.hkex.com. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority, at the branch share registrar of the Company in Hong Kong, Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wan Chai, Hong Kong not less than 48 hours before the time appointed for holding the extraordinary general meeting or any adjournment thereof. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the extraordinary general meeting or any adjournment thereof, should he so wish and in such event, the proxy shall be deemed to be revoked.

3. In the case of joint holders of shares, any one of such holders may vote at the extraordinary general meeting, either personally or by proxy, in respect of such share as if he was solely entitled thereto, but if more than one of such joint holders are present at the extraordinary general meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.

4. The resolutions proposed to be approved at the extraordinary general meeting of the Company will be decided by poll.