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

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8176)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 30 JUNE 2010

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

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

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

This announcement, for which the directors (the "Directors") of China AU Group Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to China AU Group Holdings Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this announcement is accurate and complete in all material aspects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

FINANCIAL HIGHLIGHTS

– Turnover of the Group for the year ended 30 June 2010 was HK$99,662,281 (2009: HK$49,294,137), representing an increase of 1.0 times as compared with last year.

– Profit for the year ended 30 June 2010 was HK$27,113,366 (2009: HK$11,413,618), representing an increase of 1.4 times as compared with last year.

– Basic and diluted earnings per share for the year ended 30 June 2010 were HK5.41 cents (2009: HK2.80 cents) and HK2.46 cents (2009: Nil) respectively. The basic earnings per share increased 93.2% as compared with last year.

– The directors did not recommend the payment of final dividend for the year ended 30 June 2010.

RESULTS

The board of directors of the Company (the "Board") is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (together, the "Group") for the year ended 30 June 2010 together with the comparative figures for the corresponding year in 2009 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2010

	NOTES	**2010** *HK$*	2009 *HK$*
TURNOVER	*3*	**99,662,281**	49,294,137
COST OF SALES		**(32,599,502)**	(17,153,101)
Gross profit		**67,062,779**	32,141,036
Other revenue		**477,380**	255,922
Distribution costs		**(16,090,302)**	(7,952,828)
Administrative expenses		**(13,913,380)**	(13,030,512)
Finance costs	*4*	**(3,024,666)**	–
Profit before taxation		**34,511,811**	11,413,618
Taxation	*5*	**(7,398,445)**	–
Profit for the year	*6*	**27,113,366**	11,413,618
Dividends	*7*	**–**	–
Earnings per share		***HK cents***	*HK cents*
Basic	*8*	**5.41**	2.80
Diluted	*8*	**2.46**	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2010

	2010	2009
	HK$	*HK$*
PROFIT FOR THE YEAR	**27,113,366**	11,413,618
OTHER COMPREHENSIVE INCOME/(EXPENSE)		
Exchange differences arising on translation of foreign operations	**3,787**	(18,858)
Total comprehensive income for the year	**27,117,153**	11,394,760

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2010

	NOTES	2010 HK$	2009 HK$
Non-current assets			
Intangible assets		**8,424,000**	9,360,000
Property, plant and equipment		**2,676,308**	1,418,240
		11,100,308	10,778,240
Current assets			
Inventories		**449,584**	169,140
Trade receivables	*9*	**83,739,478**	45,031,120
Deposits, prepayments and other receivables	*10*	**181,114,284**	31,876,639
Bank balances and cash		**1,751,687**	1,116,547
		267,055,033	78,193,446
Current liabilities			
Deposits from customers		**2,914,819**	1,724,514
Accruals and other payables		**3,084,234**	2,655,282
Amounts due to a director/directors		**114,994**	7,674
Amounts due to a related company	*12*	**4,962,754**	2,404,457
Amounts due to a related party	*12*	**122,770**	47,837
Provision for taxation		**7,403,193**	4,691
		18,602,764	6,844,455
Net current assets		**248,452,269**	71,348,991
Total assets less current liabilities		**259,552,577**	82,127,231
Non-current liabilities			
Convertible bonds	*11*	**71,687,938**	–
Total net assets		**187,864,639**	82,127,231
Capital and reserves			
Share capital		**52,220,000**	47,240,000
Reserves		**135,644,639**	34,887,231
		187,864,639	82,127,231

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

1. GENERAL

China AU Group Holdings Limited (Formerly known as "Blu Spa Holdings Limited") was incorporated in the Cayman Islands on 30 August 2001 as an exempted company with limited liability under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Its parent and ultimate holding company is Million Fortune Group Limited (incorporated in the British Virgin Islands).

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The Company is an investment holding company.

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

In the current year, the Company has applied, for the first time, the following new or revised standards, amendments and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants with effect from the beginning of current accounting period:

HKFRSs (Amendments)	Improvements to HKFRSs
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellation
HKFRS 3 (Revised)	Business Combinations
HKFRS 7 (Revised)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners
HK(IFRIC) – Int 18	Transfers of Assets from Customers

Except as described below, the adoption of the new and revised HKFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting period.

HKAS 1 (Revised) Presentation of Financial Statements

The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions which owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income and expenses, either in one single statement, or in two linked statements. The Group has elected to present two statements.

The new format for the consolidated statement of comprehensive income and the consolidated statement of change in equity has been adopted in this financial report and corresponding amounts have been restated to confirm to the new presentation. The Standard introduces the accounts of "Other comprehensive income/expense for the year" and "Total comprehensive income/expense for the year" into the consolidated statement of comprehensive income. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

HKFRS 7 (Revised) Financial Instrument: Disclosure

The amended Standard requires additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. In addition, reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between Level 1 and Level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures.

HKFRS 8 Operating segments

This Standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary and secondary reporting segments of the Group. Adoption of this Standard did not have any significant effect on the financial position or performance of the Group.

The Group has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[4]
HKFRS 1 (Amendments)	Additional Exemptions for First-time Adopters[1]
HKFRS 1 (Amendments)	Limited Exemptions from Comparative HKFRS 7 Disclosures for First-time Adopters[3]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[1]
HKFRS 9	Financial Instruments (relating to the classification and measurement of financial assets)[6]
HKAS 24 (Revised)	Related Party Discloures[5]
HKAS 32 (Amendments)	Classification of Rights Issues[2]
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[5]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[3]

[1] Effective for annual periods beginning on or after 1 January 2010
[2] Effective for annual periods beginning on or after 1 February 2010
[3] Effective for annual periods beginning on or after 1 July 2010
[4] Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
[5] Effective for annual periods beginning on or after 1 January 2011
[6] Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

3. BUSINESS AND GEOGRAPHICAL SEGMENTS

Application of HKFRS 8 Operating Segments

The Group has adopted HKFRS 8 Operating Segments with effect from 1 July 2009. HKFRS 8 is a disclosure Standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purposes of allocating resources to segments and assessing their performance. In contrast, the predecessor Standard (HKAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and returns approach. In the past, the Group's primary reporting segment was business segments. The adoption of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14.

For management purposes, the Group is currently organized into five operating segments, namely the sales of beauty equipment, the sales of beauty products, the royalty fee income, the therapy services and the provision of training courses.

Segment revenue and results

An analysis of the Group's turnover and contribution to operating results by reportable segment are as follows:

	The People's Republic of China ("PRC") *HK$*	**Hong Kong** *HK$*	**Consolidated** *HK$*
For the year ended 30 June 2010			
TURNOVER			
External sales			
– Sales of beauty equipment	**76,000,000**	**–**	**76,000,000**
– Sales of beauty products	**9,878,880**	**584,586**	**10,463,466**
– Royalty fee income	**8,587,888**	**–**	**8,587,888**
– Therapy services	**–**	**2,610,927**	**2,610,927**
– Provision of training courses	**2,000,000**	**–**	**2,000,000**
Total revenue	**96,466,768**	**3,195,513**	**99,662,281**
RESULT			
Segment result	**67,288,308**	**(225,529)**	**67,062,779**
Unallocated corporate incomes			**477,262**
Unallocated corporate expenses			**(30,003,682)**
Interest income			**118**
Finance costs			**(3,024,666)**
Taxation			**(7,398,445)**
Profit for the year			**27,113,366**

The geographical segments were analysed in accordance with the ultimate destination where the products are sold or services are provided based on knowledge of the Directors.

	The People's Republic of China ("PRC") *HK$*	Hong Kong *HK$*	Consolidated *HK$*
For the year ended 30 June 2009			
TURNOVER			
External sales			
– Sales of beauty equipment	28,000,000	–	28,000,000
– Sales of beauty products	13,134,141	130,871	13,265,012
– Royalty fee income	4,109,046	–	4,109,046
– Therapy services	–	1,920,079	1,920,079
– Provision of training courses	2,000,000	–	2,000,000
Total revenue	47,243,187	2,050,950	49,294,137
RESULT			
Segment result	35,973,884	(3,832,848)	32,141,036
Unallocated corporate incomes			255,742
Unallocated corporate expenses			(20,983,340)
Interest income			180
Finance costs			–
Taxation			–
Profit for the year			11,413,618

Segment assets and liabilities

Business Segment	Sales of beauty equipment *HK$*	Sales of beauty products *HK$*	Therapy services *HK$*	Royalty fee income *HK$*	Provision of training courses *HK$*	Consolidated *HK$*
2010						
ASSETS						
Segment assets	**125,038,138**	**40,465,124**	**–**	**12,698,629**	**47,000,000**	**225,201,891**
Unallocated corporate assets						**52,953,450**
Consolidated total assets						**278,155,341**
LIABILITIES						
Segment liabilities	**–**	**(4,962,754)**	**(2,914,819)**	**–**	**–**	**(7,877,573)**
Unallocated corporate liabilities						**(10,725,191)**
Convertible bonds						**(71,687,938)**
Consolidated total liabilities						**(90,290,702)**
Additions of property, plant and equipment						**2,056,888**
Depreciation and amortisation						**1,490,595**

Business Segment	Sales of beauty equipment *HK$*	Sales of beauty products *HK$*	Therapy services *HK$*	Royalty fee income *HK$*	Provision of training courses *HK$*	Consolidated *HK$*
2009						
ASSETS						
Segment assets	35,420,600	14,752,527	–	5,278,593	2,000,000	57,451,720
Unallocated corporate assets						31,519,966
Consolidated total assets						88,971,686
LIABILITIES						
Segment liabilities	–	(2,404,457)	(1,724,514)	–	–	(4,128,971)
Unallocated corporate liabilities						(2,715,484)
Convertible bonds						–
Consolidated total liabilities						(6,844,455)
Additions of property, plant and equipment						1,074,192
Depreciation and amortisation						1,266,604

Revenue reported above represents revenues generated from external customers. There were no inter-segment sales during the year 2010 (2009: Nil).

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

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

Geographical information

Geographical Segment	**PRC** *HK$*	**Hong Kong** *HK$*	**Consolidated** *HK$*
2010			
ASSETS			
Segment assets	**254,401,891**	**10,611,273**	**265,013,164**
Unallocated corporate assets			**13,142,177**
Consolidated total assets			**278,155,341**
LIABILITIES			
Segment liabilities	**–**	**(74,602,757)**	**(74,602,757)**
Unallocated corporate liabilities			**(15,687,945)**
Consolidated total liabilities			**(90,290,702)**
2009			
ASSETS			
Segment assets	44,964,883	65,320	45,030,203
Unallocated corporate assets			43,941,483
Consolidated total assets			88,971,686
LIABILITIES			
Segment liabilities	–	(1,724,514)	(1,724,514)
Unallocated corporate liabilities			(5,119,941)
Consolidated total liabilities			(6,844,455)

Analysis of capital expenditure and depreciation by geographical market is not presented because, in the opinion of the Directors, there is no direct relationship between geographical market and the location of the capital assets.

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2010	2009	**2010**	2009
	HK$	*HK$*	***HK$***	*HK$*
Hong Kong	**10,611,273**	65,320	**2,056,888**	1,074,192
PRC	**254,401,891**	44,964,883	**–**	–
	265,013,164	45,030,203	**2,056,888**	1,074,192

Information about major customer

Revenue arising from sales of beauty equipment, sales of beauty products, royalty fee income and provision of training courses of approximately HK$96,466,768 (2009: HK$47,243,187) are arose from sales to the Group's largest customer.

4. FINANCE COSTS

	2010	2009
	HK$	*HK$*
Interest expenses on loan from financial institution	**893,370**	–
Imputed interest on convertible bonds	**2,131,296**	–
	3,024,666	–

5. TAXATION

	2010	2009
	HK$	*HK$*
The charge comprises:		
Company and subsidiaries		
Current year profits tax – Hong Kong	**6,906,562**	–
Under-provision in prior years	**491,883**	–
Deferred tax		
Current year	**–**	–
Taxation attributable to the Group	**7,398,445**	–

Hong Kong Profits Tax is calculated at 16.5% (2009: 16.5%) of the estimated assessable profits for the year.

Taxation arising in other regions in the PRC is calculated in accordance with the relevant laws of the PRC.

The charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2010	2009
	HK$	*HK$*
Profit before taxation	**34,511,811**	11,413,618
Tax at applicable rate	**5,694,449**	1,883,247
Tax effect of non-deductible expenses	**1,279,949**	1,013,123
Tax effect of non-taxable revenues	**(153)**	(47,304)
Tax effect on temporary differences not recognised	**(67,683)**	(10,069)
Utilisation of tax losses previously not recognised	**–**	(2,838,875)
Effect of different tax rate of subsidiary in other jurisdiction	**–**	(122)
Under-provision in prior years	**491,883**	–
Tax charge for the year	**7,398,445**	–

At the end of reporting period, the Group has unused estimated tax losses of HK$10,588,061 (2009: HK$10,646,132) available for offset against future profits. No deferred tax asset has been recognised in respect of the estimated tax losses due to the unused estimated tax losses has not yet agreed by the Inland Revenue Department and there is uncertainty to the amount.

6. PROFIT FOR THE YEAR

	2010	2009
	HK$	*HK$*
Profit for the year has been arrived at after charging:		
Directors' remuneration	**2,304,600**	3,122,750
Other staff costs	**8,015,047**	5,687,130
Retirement benefit scheme contributions	**283,998**	219,885
Total staff costs	**10,603,645**	9,029,765
Allowance for bad and doubtful debts	**111,439**	–
Amortisation of intangible assets	**936,000**	936,000
Auditors' remuneration	**200,000**	200,000
Depreciation	**554,595**	330,604
Written off of property, plant and equipment	**244,225**	–
Written off of deposits and other receivables	**–**	29,724
And after crediting:		
Bank interest income	**118**	180
Written off of accruals and other payables	**476,452**	254,946
Written back of allowance for inventories	**–**	30,984

7. DIVIDENDS

No dividends have been paid or declared by the Company during the year (2009: HK$ Nil).

8. EARNINGS PER SHARE

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

	2010	2009
	HK$	*HK$*
Earnings for the purpose of basic earnings per share:		
Profit for the year attributable to shareholders of the Company	**27,113,366**	11,413,618
Number of shares:		
Weighted average number of shares for the purpose of basic earnings per share	**501,188,494**	407,698,630
Effect of dilutive potential ordinary shares:		
Convertible bonds issued by the Company	**600,000,000**	-
	1,101,188,494	407,698,630

No diluted earnings per share had been presented for the year ended 30 June 2009, as there was no potential dilutive shares during the year.

Diluted earnings per share for the year ended 30 June 2010 assumed the conversion of all the outstanding convertible bonds of the Company, amounted to a maximum of 600,000,000 shares.

9. TRADE RECEIVABLES

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:

	2010	2009
	HK$	*HK$*
Aged:		
0-60 days	**30,231,869**	16,397,520
61-120 days	**17,697,560**	10,484,296
121-180 days	**7,000,000**	5,023,040
181-365 days	**21,690,858**	13,126,264
Over 365 days	**7,278,593**	47,963
	83,898,880	45,079,083
Provision for doubtful debts	**(159,402)**	(47,963)
	83,739,478	45,031,120

The Directors consider that the carrying amounts of trade receivables approximate their fair value.

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.

An amount of HK$83,587,229 (2009: HK$44,859,051) included in trade receivables were due from the sole PRC distributor, Beauty Concept. Such trade receivable represented approximately 44.5% (2009: 54.6%) of the total net asset value. Such trade receivable is unsecured, interest-free and with credit terms of 180 days. The amount primarily arose from the Group's sales of beauty equipment, sales of beauty products, royalty fee income and provision of training course.

As at 30 June 2010, trade receivables over 180 days amounted to HK$28,969,451 (2009: HK$13,174,227) were past due. The Group does not hold any collateral over these balances. In the opinion of the Directors, taking into account of the development of business activities of Beauty Concept, no impairment is considered necessary

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

	2010	2009
	HK$	*HK$*
Balance at the beginning of the year	**47,963**	47,963
Impairment losses recognised on trade receivables	**111,439**	–
Balance at the end of the year	**159,402**	47,963

10. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

The Group

	2010	2009
	HK$	*HK$*
Deposits paid *(note a)*	**71,242,364**	474,524
Prepayments *(note b)*	**104,356,639**	26,421,556
Rental and utilities deposits	**5,055,811**	4,557,089
Other receivables	**459,470**	423,470
	181,114,284	31,876,639

Note:

(a) (i) During the year, the Company had paid in aggregate HK$25,000,000 as earnest money in relation to the acquisition of the possible joint venture, as described in note 14(a). should the parties fail to sign a formal sales & purchase agreement or should the acquisition fails to proceed by 31 December 2010, the earnest money will be refunded.

(ii) HK$45,000,000 paid for the Hua Du Project, as described in note 14(b), to acquire 70% of the entire issued share capital of Vertical Signal Investments Limited (the "Target Company") at an consideration of HK$80,000,000.

(b) Included in the prepayments are an amount of HK$96,614,662 for the purchase of inventories, most of the amount prepaid to 6 major suppliers, which represented approximately 92.6% of the total prepayment, and HK$6,000,000 for marketing & promotion fee.

11. CONVERTIBLE BONDS

On 29 April 2010, the company issued zero coupon convertible bonds due on 29 April 2013 in the aggregate principal amount of HK$114,000,000 with a conversion price of HK$0.19 per ordinary share of HK$0.1 (Subject to adjustment) of the Company.

The fair value of the liability component and equity conversion component were determined upon the issuance of the convertible bonds.

The fair value of the liability component, included in non-current liabilities, was calculated based on the estimated discounted cash flow over the estimated contractual terms of the convertible bonds and discounted using a market interest rate for an equivalent non-convertible bond. The discounted rate of the liabilities component of the convertible bonds was approximately 17.75%. The residual amount, representing the value of equity conversion component was included in the shareholders' equity under "convertible bonds equity reserve".

The convertible bonds recognised in the statement of financial position were calculated as follows:

	2010
	HK$
Proceeds of issue	**110,122,343**
Equity component	**(40,565,701)**
Liability component at date of issue	**69,556,642**
Interest charged	**2,131,296**
Liability component at 30 June 2010	**71,687,938**

Interest on the convertible bonds is calculated on the effective yield basis by applying the effective interest rate for an equivalent non-convertible bond to the liability component of the convertible bonds.

The liability component is measured at amortised cost. The interest expense for the year of HK$2,131,296 is calculated by applying an effective interest rate of 17.75% to the liability component. The convertible bonds do not bear any interest. The difference between the carrying amount of the liability component at the date of issue of HK$69,556,642 and the amount reported in the consolidated statement of financial position at 30 June 2010 of HK$71,687,938 represents the effective interest less interest paid to that date.

Pursuant to the terms and conditions of the convertible bonds, so long as any bond remains outstanding, the Company will not create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest upon the whole or any part of its undertaking, assets or revenues, present or future, to secure, guarantee or indemnify in respect of any present or future indebtedness of the Company other than loans from banks or licensed or registered financial institutions unless, at the same time or prior thereto, the Company's obligation under the bonds (a) are secured equally and ratably therewith or benefit from a guarantee or indemnity in substantially identical terms thereto, as the case may be or (b) have the benefit of such other security, guarantee, indemnity or other arrangement as the bondholders shall approve by an ordinary resolution.

12. AMOUNTS DUE TO A RELATED COMPANY/A RELATED PARTY

At 30 June 2010, the amount due to a related company, the controlling shareholder of which is the chief executive officer of the Company, amounted to HK$4,962,754 (2009: HK$2,404,457) is unsecured, non-interest bearing and repayable upon demand.

At 30 June 2010, the amount due to a related party who is the chief executive officer of the Company, amounted to HK$122,770 (2009: HK$47,837) is unsecured, non-interest bearing and repayable upon demand.

The Directors consider that the carrying amounts approximate their fair value.

13. RELATED PARTY TRANSACTIONS

During the year, the Group had the transactions with the following parties:

Name of party	*NOTES*	**Nature of transactions**	**2010** *HK$*	2009 *HK$*
Balance at 30 June 2010:				
Garrick	*(ii)*	Purchases of products and expenses paid on behalf	**(4,962,754)**	(2,404,457)
Garrick	*(ii)*	Deposit paid for purchase of inventories	**3,000,000**	3,000,000
Ms. Keung Wai Fun, Samantha	*(ii)*	Expenses claimed to be reimbursed	**(122,770)**	(47,837)
Ms. Chan Choi Har, Ivy	*(i)*	Expenses claimed to be reimbursed	**(114,994)**	(6,230)
Cheung Tsun Hin, Samson	*(iii)*	Expenses claimed to be reimbursed	**–**	(1,444)
Transactions arose in the ordinary course of the Group's business:				
Cheung Tsun Hin, Samson		Salary	**360,000**	360,000
		Director fee	**120,000**	110,000
			480,000	470,000
Ms. Chan Choi Har, Ivy		Salary	**1,200,000**	1,200,000
		Director fee	**120,000**	110,000
			1,320,000	1,310,000
Ms. Keung Wai Fun, Samantha		Salary	**1,200,000**	1,200,000
Garrick	*(ii)*	Purchases of products	**6,558,296**	8,749,716
Garrick	*(ii)*	Purchases of equipment	**–**	148,048

Compensation for key management personnel

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

	The Group **2010** *HK$*	2009 *HK$*
Short-term employee benefits	**2,588,748**	3,324,500

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

Notes:

i. The amount due to a director is unsecured, interest free and has no fixed repayment terms.

ii. Ms. Keung Wai Fun, Samantha, who is the chief executive officer of China AU Group Holdings Limited, is the controlling shareholder and director of Garrick. The Group purchased products at arm's length from Garrick during the year.

As at 30 June 2010, an amount of HK$3,000,000 was deposit paid to Garrick to purchase bottles on behalf of the Group.

iii. Mr. Cheung Tsun Hin, Samson is the director of China AU Group Holdings Limited.

14. EVENTS AFTER REPORTING PERIOD

(a) On 9 December 2009, a wholly owned subsidiary of the Company, Castletop Assets Limited (the "Castletop") entered into the Letter of Intent (the "LOI") with Zhongcheng Satellite Technology Center Co., Ltd. (中成衛星技術中心有限公司) ("ZSTC") in relation to a possible joint venture. The principal business of the joint venture company will be engaged in the business of research, development and operation of an electronic medical card system using the radio frequency identification technology in the PRC (the "e-Medical Card Project").

According to the LOI, it is proposed that ZSTC will first form a joint venture company in the PRC. It is intended that the shareholding of the joint venture company will be held as to 20% by ZSTC and as to 80% by an offshore company. ZSTC would procure the shareholder of the said offshore company (the "Vendor") to sell its 80% equity interest in the joint venture company to Castletop.

Pursuant to the LOI, subsequent supplementary letter of intent and a Head of Agreement, Castletop has paid an aggregate amount of HK$25,000,000 as refundable earnest money (the "Earnest Money"). If the parties fail to sign the formal sales & purchase agreement or if the possible acquisition fails to proceed by 31 December 2010 for whatsoever reason, the earnest money will be refunded to Castletop.

The acquisition is still under negotiation, no binding agreement in relation to the possible joint venture has been entered into at the end of reporting period.

(b) On 30 April 2010, a wholly-owned subsidiary of the Company, Blu Spa (Hong Kong) Limited (the "BSHK") and Mr. Shum Yeung (the "Vendor"), entered into the sales & purchase agreement ("S&P Agreement"), pursuant to which BSHK has agreed to acquire 70% of the entire issued share capital of Vertical Signal Investments Limited (the "Target Company") and the loan of approximately HK$55,679,000 at an consideration of HK$80,000,000 (the "Consideration") subject to fulfillment of certain conditions. The Vendor has agreed to grant an option to BSHK to purchase the remaining 30% of the entire issued share capital in the Target Company at an consideration of HK$30,000,000 during the option period.

At the date of the S&P Agreement, an aggregate amount of HK$45,000,000 had been paid to the Vendor as deposit. As to the balance of HK$35,000,000 shall be satisfied by cash or by issue of zero coupon convertible notes due 2015 of the Company (or a combination of both) at the discretion of the Purchaser. The conversion price of the convertible notes is set at HK$0.548 per share, subject to adjustment.

Completion of the acquisition is subject to the satisfaction of the conditions in the S&P Agreement on or before 30 November 2010 (or such other date as the Company and the Vendor may agree). In the event that the S&P Agreement was terminated by reasons as specified in the S&P Agreement, the Vendor shall forthwith refund all sums received for payment of the Consideration, without interest, to BSHK.

The principal assets of the Target Company is a piece of land situated in Guangzhou, Hua Du with buildings thereon of the total built area of about 8,000 square metres (the "Buildings"). The Group will establish a beauty professional training institute in the Buildings.

EXTRACT OF INDEPENDENT AUDITORS' REPORT

The auditors added an Emphasis of Matter paragraph in their auditors' report in respect of the consolidated financial statements for the year ended 30 June 2010 as follows:

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to Note 6 to the consolidated financial statements. At 30 June 2010, the Group's major customer is Shenzhen Beauty Concept Trading Limited ("Beauty Concept"), its sole distributor in the PRC. The total sales to Beauty Concept amounted to HK$96,466,768 which accounted for approximately 96.8% of the total turnover for the year ended 30 June 2010. The Group's exposure to operation risk and credit risk is primarily attributable to heavy reliance on the Group's sole distributor in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the year under review, the turnover of the Group amounted to HK$99,662,281, representing an increase of 1.0 times as compared to that of last year (2009: HK$49,294,137). Such increase was primarily attributable to the remarkable growth in the distribution sales and beauty services in both Hong Kong and mainland China.

While Hong Kong was experiencing slow recovery in retail industry, during the year under review the Group opened two cosmetic sales and spa service counters in life-style department store "CITISTORE" and one sales and spa service counter in specialty shop "ID:C" of which both are targeted at the young consumer market segment of the beauty care industry. The Group further established a new spa center at Macau Jockey Club which is considered to be one of the leading potential contributors to its future business growth in the spa service sector.

During the period under review, apart from the new cosmetic sales counters and spa centers opened in Hong Kong and China, the Group opened its first hair rejuvenation center in the Central District which coincided with the market debut of Group's new line of hair treatment products. The Group believes that the opening of the new hair rejuvenation center will help widen its product and service offerings to customers and strengthen its sales and profitability.

Regarding the PRC market, the Group has obtained the beauty school license necessary for the opening and operation of its new vocational training academy in Hua Du, Guangzhou ("Academy") as part of the Group's efforts of seeking diversification and new investment opportunities that have good prospect in producing strong earnings and profitability. In addition to providing international beauty training courses, the Academy will offer other vocational training such as academic studies, finance, health related and non-Chinese language courses. Given that the operation of the Academy is based on a business model that requires tuition fees to be paid at the beginning of each academic year, the Group anticipates that the opening of the Academy will not only promote future business growth, it will at the same time generate higher turnover and profit margin for the Group in the future.

While there are existing measures to monitor the performance and financial position of the PRC Sole Distributor and measures to monitor its transactions and outstanding balance. For better management of operation and credit risks, the Group has notified the PRC Sole Distributor that when the current term is due to expire in July 2011, the Group will only consider an extension on the condition that its sole distributorship be restricted to a designated region and two new distributors be appointed in respect of two other regions in the PRC. The aim of such additional measures is to minimize the Group's exposure to operation and credit risks attributable to the heavy reliance on a single distributor in the PRC.

Operating Results

For the year ended 30 June 2010, the Company and its subsidiaries (the "Group") recorded a turnover of HK$99,662,281, representing an increase of 1.0 times as compared to last year (2009: HK$49,294,137). This significant increase in turnover was mainly attributed to the continuing efforts of the Group in improving its product distribution, customer service and beauty care services in Hong Kong and mainland China.

The Group's gross profit for the year ended 30 June 2010 was HK$67,062,779, representing an increase of 1.1 times as compared to last year (2009: HK$32,141,036) which was mainly attributable to increased distribution sales for the year.

The Group's distribution costs for the year ended 30 June 2010 was HK$16,090,302, representing an increase of 1.0 times as compared to last year (2009: HK$7,952,828). The increase in distribution costs was mainly attributable to increased marketing and promotional expenses for the development of distributorship business in the PRC.

The Group's administrative expense for the year ended 30 June 2010 was HK$13,913,380, representing an increase of 6.8% as compared to last year (2009: HK$13,030,512).

The Group's finance costs for the year ended 30 June 2010 was HK$3,024,666 (2009: Nil). The finance costs relates to the imputed interest on the convertible bonds issued during the year and interest expenses on other borrowings.

The Group had profit attributable to shareholders of the Company of HK$27,113,366 for the year ended 30 June 2010 representing an increase of 1.4 times as compared to last year (2009: HK$11,413,618).

Prospect

As for Hong Kong, given the successful opening and operation of Blu Spa cosmetic sales and spa service counters in leading lifestyle department stores such as Harvey Nichols and CITISTORE and specialty shop such as ID:C, the Group is actively seeking new opportunities to expand its retail distribution network by setting up cosmetic sales and spa service counter in leading department stores and upscale shopping centers in Hong Kong. At the same time, the Group is engaged in on-going negotiations with leading property developers in Hong Kong for additional spa facility management opportunity in high-end residential estates as well as hotels.

With regard to the China market, in view of the growing demand of Chinese consumers for beauty and body care services, the Group has in place business plan for launching hair care franchise business catering for young entrepreneurs interested in investing in operation of unique innovative hair care franchise. As franchisor we will provide technical support ranging from shop location selection to staff training and product supplies. The Group is confident that hair care franchise business in China will help increase its market share in China hair care market sector, broaden its income base and at the same time improve its profitability.

As mentioned earlier, the Group is actively seeking new business opportunities similar to the Hua Du academy that potentially will contribute to its successful performance and stronger financial results.

Liquidity and Financial Resources

As at 30 June 2010, the equity attributable to equity holders of the Company amounted to HK$187,864,639, representing an increase of HK$105,737,408 or approximately 1.3 times from previous year.

As at 30 June 2010, current ratio of the Group was 14.4 (2009: 11.4).

As at 30 June 2010, total cash and bank balances of the Group were HK$1,751,687 (2009: HK$1,116,547).

For the year ended 30 June 2010, the Group mainly financed its operations with internally generated resources and net proceeds of approximately HK$38,000,000 and HK$110,000,000 from the issue of 49,800,000 ordinary shares at the placing price of HK$0.80 per share on 2 December 2009 and three-year zero coupon convertible bonds due 2013 in the aggregate principal amount of HK$114,000,000 with the conversion price of HK$0.19 (subject to adjustment in accordance with the terms and conditions of the convertible bonds) per ordinary share of HK$0.10 each on 29 April 2010 respectively.

Capital Structure

On 2 December 2009, the Company issued 49,800,000 ordinary shares with a par value of HK$0.10 each at the placing price of HK$0.80 per share.

On 29 April 2010, the Company issued three-year zero coupon convertible bonds due 2013 in the aggregate principal amount of HK$114,000,000 with a conversion price of HK$0.19 (subject to adjustment in accordance with the terms and conditions of the convertible bonds) per ordinary share of HK$0.10 each of the Company. The fair value of the liability component and equity conversion component were determined upon the issuance of the convertible bonds. The liability component at the date of issue and as at 30 June 2010 amounted to HK$69,556,642 and HK$71,687,938 respectively.

Subsequent to the balance sheet date, on 6 August 2010, the convertible bonds in a total principal amount of HK$19,000,000 were converted into 100,000,000 ordinary shares of the Company.

During the year ended 30 June 2010, the shareholder's equity of the Company increased to HK$187,864,639 (2009: HK$82,127,231).

Save as the issuance of convertible bonds above, the Group had no material borrowings as at 30 June 2010.

The cash and cash equivalents of the Group are mainly denominated in Hong Kong dollars.

Gearing Ratio

As at 30 June 2010, the Group's gearing ratio, expressed as a ratio of total borrowings to total assets, was 25.8% (2009: Nil). The increase in the gearing ratio is resulted from the issue of the convertible bonds during the year.

Possible Material Acquisitions and Disposals of Subsidiaries and Joint Ventures

Possible major transaction and advance to entity

Reference is made to the Company announcements published on 16 December 2009, 24 February 2010, 30 March 2010, 30 April 2010, 20 May 2010 and 25 August 2010. Unless otherwise stated, capitalized terms used in this announcement shall have the same meanings as defined in the above announcements.

On 30 April 2010, BSHK (the "Purchaser", a wholly-owned subsidiary of the Company) and the Vendor entered into the S&P Agreement, pursuant to which BSHK has agreed to purchase and the Vendor has agreed to sell 70% of the entire issued share capital of the Target Company and the Loan at an consideration of HK$80,000,000 and the Vendor has agreed to grant the Option to the BSHK to purchase the remaining 30% of the entire issued share capital in the Target Company at an consideration of HK$30,000,000 during the Option Period. As a condition precedent to the Acquisition, the Target Company will undergo the Reorganization whereby among other things the Target Company will acquire (through the WOFE) entire equity interest in the Property. The Property has two 3-storey buildings situated at Hua Du, Guangzhou, the PRC. The aggregate site area and the gross floor area of the Property are approximately 3,000 sq.m. and approximately 8,000 sq.m. respectively. The Property is not subject to any tenancies and the Group intends to occupy the Property to set up a training institute by offering various training courses for professional beauty therapists. In addition, the Group intends to lease out certain portion of the property to other independent third party academic institutes for offering other courses such as languages and corporate management.

An aggregate of HK$45,000,000 has been paid to the Vendor by cash as refundable deposit and part payment (the "Deposit") and the balance of the Consideration of HK$35,000,000 shall be settled by cash or by issue of zero coupon convertible notes due 2015 of the Company (or a combination of both) at the discretion of the Purchaser.

Pursuant to the Company's announcement of 25 August 2010, BSHK and the Vendor agreed to extend the long stop date of the S&P Agreement to 30 November 2010 (or such later date as BSHK and the Vendor may agree) to allow more time to prepare the necessary information for inclusion in the Circular.

Given the Deposit of HK$45,000,000 represents approximately 16.2% of the total asset value of the Company as at 30 June 2010 under the assets ratio (as defined under Rule 19.07(1) of the GEM Listing Rules), it constitutes an advance to entity under Rule 17.15 of the GEM Listing Rules.

Possible Acquisition of indirect interest in the Joint Venture Company and advance to entity

Reference is made to the Company announcements published on 9 December 2009, 28 January 2010, 25 February 2010, 3 May 2010 and 27 August 2010. Unless otherwise stated, capitalized terms used in this announcement shall have the same meanings as defined in the above announcements.

On 3 May 2010, the Purchaser (a wholly-owned subsidiary of the Company) entered into the HOA with the Vendor in relation to the Possible Acquisition of indirect interest in the Joint Venture Company. The principal business of the Joint Venture Company is to engage in the business of research, development and operation of an electronic medical card system using the radio frequency identification technology in the PRC (the "e-Medical Card Project"). An aggregate of HK$25,000,000 has been paid by cash as refundable earnest money.

Pursuant to the Company's announcement of 27 August 2010, the Purchaser, the Vendor and the Guarantor agreed to extend the long stop date of the HOA for entering into the S&P Agreement to 31 December 2010 (or such later date as the Purchaser, the Vendor and the Guarantor may agree). No binding agreement in relation to the Possible Acquisition has been entered into as at the date of this announcement.

Given the refundable earnest money of HK$25,000,000 represents approximately 9.0% of the total asset value of the Company as at 30 June 2010 under the assets ratio (as defined under Rule 19.07(1) of the GEM Listing Rules), it constitutes an advance to entity under Rule 17.15 of the GEM Listing Rules.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for the year ended 30 June 2010.

CORPORATE GOVERNANCE

For the year ended 30 June 2010, the Group had been in compliance with most of the provisions of the Code on Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules, save as the deviations discussed below. The Company adopted the code provisions set out in the Code on Corporate Governance Practices as its own code of corporate governance practices.

According to Code Provision A.4.1, non-executive directors must be appointed for a specific term and subject to re-election. The existing non-executive Directors of the Company do not have specific terms of appointment. However, pursuant to the Bye-laws of the Company, all Directors of the Company (including executive and non-executive Directors) (except the Chairman of the Company) shall be subject to retirement by rotation in annual general meetings of the Company.

According to Code Provision A.4.2, every director is subject to retirement by rotation at least once every three years. Pursuant to the Bye-laws of the Company, at each annual general meeting, one-third of the directors must retire. Notwithstanding any requirements of that provision, the Chairman of the Company is not subject to retirement by rotation or taken into account in determining the number of Directors to retire. Mr. Cheung Tsun Hin, Samson is the Chairman and executive Director of the Company. As Mr. Cheung Tsun Hin, Samson is responsible for market development of the Group, the Board believes that continuity is the key to implementing the long-term business plans successfully, and that with the Chairman continuing in office, it can provide the Group with strong and consistent leadership, thus long-term business strategies can be planned and implemented more effectively. The Board is satisfied that the Chairman of the Company should not be subject to retirement by rotation.

AUDIT COMMITTEE

As required by Rules 5.28 to 5.33 of the GEM Listing Rules, the Company established an audit committee (the "Audit Committee") on 10 December 2001 with written terms of reference which precisely specifies its powers and duties. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group.

The Audit Committee currently comprises three INEDs, namely, Mr. Chan Sze Hon, Mr. Lam Wai Pong and Mr. Yeung Mario Bercasio. Mr. Chan Sze Hon is the Chairman of the Audit Committee.

The Group's annual results for the year ended 30 June 2010 have been reviewed by the Audit Committee.

REMUNERATION COMMITTEE

The Company established a remuneration committee (the "Remuneration Committee") on 30 March 2005 with written terms of reference. The Remuneration Committee currently comprises three INEDs of the Company, namely, Mr. Chan Sze Hon, Mr. Lam Wai Pong and Mr. Yeung Mario Bercasio. Mr. Chan Sze Hon is the Chairman of the Remuneration Committee.

By order of the Board
China AU Group Holdings Limited
Cheung Tsun Hin, Samson
Chairman

Hong Kong, 27 September 2010

As at the date of this announcement, the Board comprises three executive Directors, namely, Mr. Cheung Tsun Hin, Samson, Ms. Chan Choi Har, Ivy and Mr. Ji He Qun; one non-executive Director, namely Mr. Chan Shun Kuen, Eric; and three independent non-executive Directors, namely Mr. Chan Sze Hon, Mr. Lam Wai Pong and Mr. Yeung Mario Bercasio.

This announcement will appear and remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the date of its posting and the website of the Company at www.bluspa.com.

* *For identification purpose only*