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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 2011

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

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

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

This announcement, for which the directors (the "Directors") of China AU Group Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

* *for identification purpose only*

RESULTS

The board of Directors (the "Board") of China AU Group Holdings Limited (the "Company") is pleased to present the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 30 June 2011 together with the comparative figures for the corresponding year in 2010 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2011

	Notes	2011 HK$'000	2010 HK$'000
Turnover	5	**53,400**	99,662
Cost of sales		**(37,475)**	(32,599)
Gross profit		**15,925**	67,063
Other revenue		**312**	477
Selling and distribution costs		**(8,268)**	(16,090)
Administrative expenses		**(16,805)**	(13,803)
Impairment loss recognised in respect of trade receivables	12	**(117,525)**	(111)
Impairment loss recognised in respect of deposits, prepayments and other receivables	13	**(52,135)**	—
Loss on deconsolidation of subsidiaries	16	**(135)**	—
Finance costs	6	**(7,043)**	(3,025)
(Loss) profit before tax		**(185,674)**	34,511
Income tax expense	7	**(6)**	(7,398)
(Loss) profit for the year	8	**(185,680)**	27,113
Other comprehensive income			
Exchange differences arising on translation of foreign operations		**1**	4
Release of translation reserve upon deconsolidation of subsidiaries		**16**	—
Other comprehensive income for the year		**17**	4
Total comprehensive (expense) income for the year		**(185,663)**	27,117
(Loss) profit for the year attributable to:			
Owners of the Company		**(185,680)**	27,113
Total comprehensive (expense) income for the year attributable to:			
Owners of the Company		**(185,663)**	27,117
(Loss) earnings per share (HK cents)	10		
— Basic		**(22.09)**	5.41
— Diluted		**(22.09)**	2.46

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current assets			
Intangible assets		**7,488**	8,424
Property, plant and equipment		**2,138**	2,676
		9,626	11,100
Current assets			
Inventories	*11*	**975**	450
Trade receivables	*12*	**3,158**	83,740
Deposits, prepayments and other receivables	*13*	**119,015**	181,114
Bank balances and cash		**1,436**	1,752
		124,584	267,056
Current liabilities			
Amounts due to a director		**219**	115
Amounts due to related companies		**2,033**	4,963
Amounts due to a related party		**385**	123
Deposits from customers	*14*	**4,446**	2,915
Accruals and other payables		**9,763**	3,084
Other borrowing		**2,000**	—
Provision for taxation		**5,594**	7,403
		24,440	18,603
Net current assets		**100,144**	248,453
Total assets less current liabilities		**109,770**	259,553
Non-current liability			
Convertible bonds	*15*	**—**	71,688
Net assets		**109,770**	187,865
Equity attributable to owners of the Company			
Share capital		**120,220**	52,220
Reserves		**(10,450)**	135,645
Total equity		**109,770**	187,865

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2011

	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 2009	47,240	57,060	22,734	—	(25)	(44,882)	82,127
Profit for the year	—	—	—	—	—	27,113	27,113
Other comprehensive income for the year:							
Exchange differences arising on translation of foreign operations	—	—	—	—	4	—	4
Total comprehensive income for the year	—	—	—	—	4	27,113	27,117
Issue of shares pursuant to the placing agreement dated 19 August 2009	4,980	34,860	—	—	—	—	39,840
Transaction costs attributable to issue of new shares	—	(1,785)	—	—	—	—	(1,785)
Recognition of equity component of convertible bonds	—	—	—	40,566	—	—	40,566
At 30 June 2010 and 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 deconsolidation 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	**120,220**	**170,269**	**22,734**	**—**	**(4)**	**(203,449)**	**109,770**

Notes:

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

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

NOTES OF THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company is 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 of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and the principal place of business of the Company is Unit B, 9/F., The Grande Building, 398 Kwun Tong Road, Kwun Tong, Hong Kong.

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

The Company's principal activity is investment holding and the principal activities of its principal subsidiaries are market development, product distribution and customer support services.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term that includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountant (the "HKICPA"), and accounting principles generally accepted in Hong Kong. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market 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

These consolidated financial statements have been prepared on a going concern basis notwithstanding that the Group incurred a loss attributable to owners of the Company of approximately HK$185,680,000 for the year ended 30 June 2011 which indicate the existence of material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. As disclosed in note 18(g), (h) and (i), the Directors of the Company have taken the following steps to generate sufficient funds to meet the Group's working capital and financial obligations when they fall due: (1) 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; (2) 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 (3) 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 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 of the Company, if the Proposed Plans accomplishes successfully, the Group will be able to generate sufficient funds to meet its future working capital requirements and financial obligations when they fall due. Accordingly, the Directors of the Company consider that it is appropriate to prepare these consolidated financial statements on a going concern basis.

The applicability of the going concern basis depends on the outcome of the Proposed Plans which the eventual outcome is uncertain and the Group's ability to generate sufficient funds to meet its future working capital requirements and financial obligations when they fall due. These consolidated financial statements do not include any adjustments that may result if the Proposed Plans could not proceed successfully. If the Proposed Plans could not proceed successfully and the going concern basis was not to be appropriate, adjustments would have to be made to the 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.

Deconsolidation of the PRC entities

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") were entities incorporated in the People's Republic of China (the "PRC") of which its equity interests are held by individuals who claim to hold on behalf of the Group under the declaration of trusts (the "Trusts"). The results, assets and liabilities of 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 and in the previous financial years.

For the year ended 30 June 2011, the majority of current Directors of the Company, who were appointed subsequent to 30 June 2011, are of the opinion that due to the nature of the Trusts and the current management was not able to obtain sufficient information including but not limited to the legal documents, and therefore not able to satisfy themselves regarding the ownership and control over 珠海富麗花 and 北京富麗花. Accordingly, the financial statements of 珠海富麗花 and 北京富麗花 were not included in the consolidated financial statements of the Group for the year ended 30 June 2011.

In addition, the current management of the Company was not able to contact the accounting personnel of 珠海富麗花 and accordingly, was not able to access to the books and records of 珠海富麗花. In view of the lack of sufficient evidence and relevant personnel support, the Directors of the Company have also not been able to satisfy themselves regarding the completeness and accuracy of the books and records of 珠海富麗花 and determine that all transactions entered into by 珠海富麗花 for the year ended 30 June 2011 have been properly reflected. Any adjustment arising from the matter described above would have a consequential effect on the Group's net loss for the year ended 30 June 2011 and related disclosures thereof in the consolidated financial statements.

The details of the calculation of the gain (loss) on deconsolidation of 珠海富麗花 and 北京富麗花 were set out in note 16 to the consolidated financial statement.

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 interpretation (collectively referred to as the "new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning on 1 July 2010. A summary of the new and revised HKFRS adopted by the Group is set out as follows:

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[1]
HKFRS 1 (Amendments)	Additional Exemption for First-time Adopters
HKFRS 1 (Amendments)	Limited Exemption from Comparative
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKAS 32 (Amendments)	Amendments to HKAS 32 Financial Instruments: Presentation — Classification of Right issues
HK (IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments
HK Interpretation 5	Presentation of Financial Statements — Classification by the Borrow of a term loan that contains a Repayment on Demand Clause

[1] Amendments that are effective for annual periods beginning on or after 1 July 2010

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

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

HKFRSs (Amendments)	Improvement to HKFRSs issued in 2010[1]
HKFRS 1 (Amendments)	Disclosures — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopter[2]
HKFRS 7 (Amendments)	Disclosures — Transfer of Financial Assets[2]
HKFRS 7 (Amendments)	Disclosures — Offsetting Financials Assets and Financial Liabilities[5]
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosure[7]
HKFRS 9	Financial Instruments[7]
HKFRS 10	Consolidated Financial Statements[5]
HKFRS 11	Joint Arrangements[5]
HKFRS 12	Disclosure of Involvement with Other Entities[5]
HKFRS 13	Fair Value Measurement[5]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[4]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[3]
HKAS 19 (Revised 2011)	Employee Benefits[5]
HKAS 24 (Revised)	Related party Disclosures[1]
HKAS 27 (Revised 2011)	Separate Financial Statements[5]
HKAS 28 (Revised 2011)	Investment in Associates and Joint Ventures[5]
HKAS 32 (Amendments)	Presentation — Offsetting Financial Assets and Financial Liabilities[6]
HK(IFRIC) — Int 20	Stripping costs in the Production Phase of a Surface Mine[5]

[1] Effective for annual periods beginning on or after 1 January 2011
[2] Effective for annual periods beginning on or after 1 July 2011
[3] Effective for annual periods beginning on or after 1 January 2012
[4] Effective for annual periods beginning on or after 1 July 2012
[5] Effective for annual periods beginning on or after 1 January 2013
[6] Effective for annual periods beginning on or after 1 January 2014
[7] 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 HKFRSs will have a significant impact on how its results of operations and financial position are prepared and presented. These new and revised HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

4. SEGMENT INFORMATION

Information reported to the Managing Director of the Company, 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) Royalty fee income

(iv) Therapy services

(v) Provision of training courses

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

For the year ended 30 June 2011

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

For the year ended 30 June 2010

OPERATING SEGMENT	Sales of beauty equipment *HK$'000*	Sales of beauty products *HK$'000*	Royalty fee income *HK$'000*	Therapy services *HK$'000*	Provision of training courses *HK$'000*	Consolidated *HK$'000*
REVENUE						
Revenue from external customers	76,000	10,463	8,588	2,611	2,000	99,662
RESULTS						
Segment profit (loss) for reportable segment	46,855	(1,965)	7,165	(4,755)	1,669	48,969
Other revenue						477
Unallocated administrative expenses						(11,799)
Finance costs						(3,025)
Profit before tax						34,622
Income tax expense						(7,398)
Core profit for the year						27,224
MAJOR NON-CASH ITEMS						
— Impairment loss recognised in respect of trade receivables						(111)
						27,113

Segment assets and liabilities

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

Segment assets and liabilities

OPERATING SEGMENT	Sales of beauty equipment *HK$'000*	Sales of beauty products *HK$'000*	Royalty fee income *HK$'000*	Therapy services *HK$'000*	Provision of training courses *HK$'000*	Consolidated *HK$'000*
2010						
ASSETS						
Segment assets	125,038	40,465	12,699	—	47,000	225,202
Unallocated corporate assets						52,954
Consolidated total assets						278,156
LIABILITIES						
Segment liabilities	—	(4,963)	—	(2,915)	—	(7,878)
Unallocated corporate liabilities						(82,413)
Consolidated total liabilities						(90,291)
Other segment information:						
Additions of property, plant and equipment						2,057
Depreciation and amortisation						1,490

Revenue reported above represents revenues generated from external customers. There were no inter-segment sales during the year 2011 (2010: Nil).

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

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

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

Geographical information

The Group mainly operates in Hong Kong and the PRC. The Group's revenue from external customers and information about its non-current assets by geographical location (excluding trademark) are detailed below:

	Revenue from external customers		Non-current assets	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**4,235**	3,195	**2,138**	2,676
The PRC	**49,165**	96,467	**—**	—
	53,400	99,662	**2,138**	2,676

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$42,691,000 (2010: HK$96,467,000) are arose from sales to the Group's largest customer.

5. TURNOVER

	2011	2010
	HK$'000	*HK$'000*
Sales of beauty equipment	**35,320**	76,000
Sales of beauty products	**10,602**	10,463
Royalty fee income	**3,836**	8,588
Therapy services	**3,142**	2,611
Provision of training courses	**500**	2,000
	53,400	99,662

6. FINANCE COSTS

	2011	2010
	HK$'000	*HK$'000*
Interest expenses on loan from financial institution	**—**	893
Imputed interest on convertible bonds *(Note 15)*	**7,043**	2,132
	7,043	3,025

7. INCOME TAX EXPENSE

	2011	2010
	HK$'000	*HK$'000*
The charge comprises of:		
Current tax		
Hong Kong	—	6,906
The PRC	**6**	—
Under-provision in prior years	—	492
	6	7,398

Hong Kong Profits Tax is calculated at 16.5% (2010: 16.5%) of the estimated assessable profits for the year. The PRC subsidiaries are subject to the PRC Enterprise Income Tax at 25% for both years. 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) profit before taxation per the consolidated statement of comprehensive income as follows:

	2011	2010
	HK$'000	*HK$'000*
(Loss) profit before taxation	**(185,674)**	34,511
Tax at the Hong Kong Profits Tax rate of 16.5% (2010: 16.5%)	**(30,636)**	5,694
Tax effect of non-deductible expenses	**28,138**	1,280
Tax effect of non-taxable revenues	**(48)**	—
Tax effect on temporary differences not recognised	**(44)**	(68)
Tax effect of tax loss not recognised	**2,588**	—
Effect of different tax rates of subsidiaries operating in other jurisdictions	**8**	—
Under-provision in prior years	—	492
Tax charge for the year	**6**	7,398

At the end of reporting period, the Group has unused estimated tax losses of approximately HK$27,530,000 (2010: HK$16,064,000) 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.

8. (LOSS) PROFIT FOR THE YEAR

	2011	2010
	HK$'000	*HK$'000*
(Loss) profit for the year has been arrived at after (charging) crediting:		
Directors' remuneration	**(2,889)**	(2,304)
Other staff costs	**(10,094)**	(8,015)
Retirement benefit scheme contributions	**(423)**	(284)
Total staff costs	**(13,406)**	(10,603)
Amortisation of intangible assets	**(936)**	(936)
Auditors' remuneration	**(1,000)**	(200)
Depreciation	**(718)**	(554)
Written off of property, plant and equipment	**—**	(245)
Impairment loss recognised in respect of trade receivables *(Note 12)*	**(117,525)**	(111)
Impairment loss recognised in respect of deposits, prepayments and other receivables *(Note 13)*	**(52,135)**	—
Loss on deconsolidation of subsidiaries	**(135)**	—
Bank interest income	**1**	—
Written back of accruals and other payables	**257**	476
Written back of allowance for inventories *(Note 11)*	**10**	—
Operating lease payment	**(6,990)**	(5,956)

9. DIVIDENDS

The Directors of the Company do not recommend any payment of final dividends for the year ended 30 June 2011 and 2010.

10. (LOSS) EARNINGS PER SHARE

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

	2011	2010
	HK$'000	*HK$'000*
(Loss) earnings for the purpose of basic and diluted (loss) earnings per share:		
(Loss) profit for the year attributable to owners of the Company	**(185,680)**	27,113
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	**840,734,246**	501,188,494
Adjustment for assumed exercise of convertible bonds		600,000,000
		1,101,188,494

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

11. INVENTORIES

	2011	2010
	HK$'000	*HK$'000*
Raw materials	**494**	518
Finished goods	**930**	391
Less: Provision for inventories	**(449)**	(459)
	975	450

Movements in provision for inventories:

	2011	2010
	HK$'000	*HK$'000*
Balance at the beginning of the year	**(459)**	(459)
Written back on provision for inventories during the year *(Note 8)*	**10**	—
	(449)	(459)

12. TRADE RECEIVABLES

	2011	2010
	HK$'000	*HK$'000*
Trade receivables	**120,842**	83,899
Less: Impairment loss recognised	**(117,684)**	(159)
	3,158	83,740

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:

	2011	2010
	HK$'000	*HK$'000*
Aged:		
0 — 60 days	**3,055**	30,232
61 — 120 days	**1**	17,698
121 — 180 days	**—**	7,000
181 — 365 days	**81**	21,691
Over 365 days	**21**	7,119
	3,158	83,740

Past due but not impaired

Included in the Group's trade receivables balances are debts with carrying amount of approximately HK$102,000 (2010: HK$28,810,000) which were past due at the end of the reporting period. In the opinion of the Directors of the Company, the amounts were still considered recoverable. The Group does not hold any collateral over these balances.

Age of receivables that are past due but not impaired

	2011	2010
	HK$'000	*HK$'000*
Aged:		
0 – 60 days	**2**	16,999
61 – 120 days	**1**	4,532
121 – 180 days	**78**	—
Over 180 days	**21**	7,279
	102	28,810

Impaired trade receivables

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

	2011	2010
	HK$'000	*HK$'000*
Balance at the beginning of the year	**159**	48
Impairment loss recognised *(Note 8)*	**117,525**	111
Balance at the end of the year	**117,684**	159

13. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2011	2010
	HK$'000	*HK$'000*
Deposits paid	**78,953**	76,298
Less: Impairment loss recognised	**(32,500)**	—
	46,453	76,298
Prepayments	**86,501**	104,357
Less: Impairment loss recognised	**(14,500)**	—
	72,001	104,357
Other receivables	**5,696**	459
Less: Impairment loss recognised	**(5,135)**	—
	561	459
	119,015	181,114

14. DEPOSITS FROM CUSTOMERS

	2011	2010
	HK$'000	*HK$'000*
Deposits from customers	**4,446**	2,915

The deposits from customers represents the deposits paid by the customers in advance for therapy services rendered and beauty products sold by Blu Spa (Hong Kong) Limited ("BSHK").

15. CONVERTIBLE BONDS

On 29 April 2010, the Company issued zero coupon convertible bonds due on 28 April 2013 in an aggregate principal amount of HK$114,000,000 with a conversion price of HK$0.19 per conversion share.

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 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 liability component of the convertible bonds was approximately 17.75%. The convertible bonds do not bear any interest.

During the year 2011, the convertible bonds were fully converted into ordinary shares with an aggregate principal amount of HK$114,000,000 at a conversion price of HK$0.19 per conversion share.

The movement of liability component of the convertible bonds for the year is set out below:

	2011
	HK$'000
Net proceeds of issue	**110,122**
Equity component	**(40,566)**
Liability component at date of issue	**69,556**
Imputed interest *(Note 6)*	**2,132**
Liability component at 30 June 2010	**71,688**
Imputed interest *(Note 6)*	**7,043**
Converted into ordinary shares	**(78,731)**
Liability component at 30 June 2011	**—**

16. DECONSOLIDATION OF SUBSIDIARIES

As disclosed in note 2 to the consolidated financial statements, 珠海富麗花 and 北京富麗花 were deconsolidated and the net assets (liabilities) of these subsidiaries at the date of deconsolidation on 30 June 2011 are as follows:

(a) 北京富麗花

	Total
	HK$'000
Net assets deconsolidated of:	
Bank balances and cash	213
	213
Release of translation reserve upon deconsolidation	(8)
	205
Loss on deconsolidation of a subsidiary	(205)
Total consideration	—
Net cash outflow arising on deconsolidation:	
Bank balances and cash deconsolidated of	(205)

(b) 珠海富麗花

	Total
	HK$'000
Net liabilities deconsolidated of:	
Deposits, prepayments and other receivables	40
Amount due to a fellow subsidiary	(129)
Tax payables	(5)
	(94)
Release of translation reserve upon deconsolidation	24
	(70)
Gain on deconsolidation of a subsidiary	70
Total consideration	—

The deconsolidation of the above subsidiaries did not result in significant impact on the Group's cash flow or operating results for the period.

17. MATERIAL RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following material transactions with related parties:

Name of party	Nature of transactions	2011 HK$'000	2010 HK$'000
Garrick International Limited ("Garrick") *(note 1)*	Purchases of products	**40**	6,558
World Global International Enterprises Limited ("World Global") *(note 1)*	Purchases of products	**26**	—
Ms. Chan Choi Har, Ivy *(note 2)*	Rendering of therapy services and sales of beauty products	**31**	24

The following balances were outstanding at the end of the reporting period:

JV Entity *(note 3)*	Advance of joint venture expense	—	1,000
Law Firm *(note 4)*	Prepayment of legal fee	—	1,050

Notes:

(1) Ms. Keung Wai Fun, Samantha, a former chief executive officer of the Company, is the controlling shareholder and director of Garrick. Mr. Cheung Tsun Hin, Samson, a former Director of the Company, is the controlling shareholder and director of World Global. The Group purchased products at normal commercial terms from Garrick and World Global during the years ended 30 June 2011 and 2010.

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

(2) Ms. Chan Choi Har, Ivy, a former Director of the Company resigned on 7 March 2012.

(3) Ms. Keung Wai Fun, Samantha, a former chief executive officer of the Company, is a Director of the JV Entity.

(4) The Company has paid a legal fee in advance to a Law Firm in Hong Kong on behalf of two entities, in which Ms. Keung Wai Fun, Samantha, the former chief executive officer of the Company and Ms. Chan Choi Har, the former Director of the Company are the controlling shareholders and directors of one of the entity.

Compensation for key management personnel

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

	2011	2010
	HK$'000	*HK$'000*
Short-term employee benefits	**4,063**	3,480
Post-employment benefits	**39**	38
	4,102	3,518

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

18. EVENTS AFTER REPORTING PERIOD

(a) On 27 July 2011, the Company and Orient Securities Limited (the "Placing Agent") entered into a placing agreement, pursuant to which the Company has conditionally agreed to place through the Placing Agent a maximum of 110,000,000 placing shares (the "Placing Share") at a price of HK$0.15 per Placing Share under the best effort basis. The placing was completed on 5 August 2011. Details of the placing were set out in the Company's announcements dated 28 July 2011 and 5 August 2011.

(b) On 22 September 2011, the sole shareholder, namely 鄧圓圓, of three entities, namely 北京富麗花，廣州市寶麗文化發展有限公司 ("寶麗文化") and 廣州市花都區富麗花譜職業培圳學校 ("花都區富麗花譜"), entered into a declaration of trust which states that she holds the equity interest of 北京富麗花，寶麗文化 and 花都區富麗花譜 on behalf of the Group and the Group is the beneficial owner of 北京富麗花，寶麗文化 and 花都區富麗花譜. 鄧圓圓 is a supervisory board member of one of the Group's distributors ("Distributor").

(c) (i) BSHK entered into an agreement dated 10 August 2011 and a supplemental agreement dated 9 October 2011 with an entity located in Henan Province of the PRC ("Henan Entity A") pursuant to which BSHK appointed Henan Entity A as its agent for purchasing beauty products for a period from 15 January 2012 to 14 March 2012 (the "Purchasing Agreements"). BSHK has advanced approximately HK$9,770,000 (equivalent to RMB8,000,000) to Henan Entity A for purchasing beauty products on 31 August 2011 and 1 September 2011 according to the terms of the Purchasing Agreements;

(ii) BSHK entered into an agreement and a supplemental agreement dated 8 October 2011 with another entity located in Henan Province of the PRC ("Henan Entity B") and another entity located in Henan Province of the PRC ("Henan Entity C") respectively, pursuant to which BSHK has appointed Henan Entity B and Henan Entity C as its agents to manage and implement advertisement plans including filming of TV commercials for a period from 10 January 2012 to 9 January 2013 in Henan province of the PRC (the "Henan Advertisement Agreements"). BSHK paid approximately HK$12,204,000 (equivalent to RMB10,000,000) to Henan Entity B for an agency fee and expenses in relation to the advertisement plans on 30 August 2011 according to the terms of the Henan Advertisement Agreements;

(iii) BSHK entered into an agreement dated 5 September 2011 and a supplemental agreement dated 15 October 2011 with Henan Entity B pursuant to which BSHK has appointed Henan Entity B as its agent to manage the decoration of its leased premises located at Zhengzhou of Henan Province of the PRC (the "Henan Office Decoration Agreement"). BSHK advanced approximately HK$20,180,000 (equivalent to RMB16,580,000) to Henan Entity B for decoration related expenses on 13 and 14 September 2011 according to the terms of the Henan Office Decoration Agreements;

(iv) BSHK entered into a rental agreement dated 5 September 2011 and a supplemental agreement dated 15 October 2011 with Henan Entity B, pursuant to which BSHK has leased the premises located at Zhengzhou of Henan Province of the PRC, as stated in note 18(c)(iii) to the announcement, of which Henan Entity B is the landlord (the "Henan Rental Agreement"). The rental period is from 10 December 2011 to 9 February 2015 with annual rental of approximately HK$7,030,000 (approximately equivalent to RMB5,838,000). BSHK advanced approximately HK$5,380,000 (approximately equivalent to RMB4,419,000) to Henan Entity B as half-year rental payment and rental deposits on 14 September 2011 according to the terms of the Henan Rental Agreements;

(v) BSHK entered into an agreement dated 12 September 2011 and a supplemental agreement dated 16 October 2011 with an entity located in Beijing ("Beijing Entity") pursuant to which BSHK has appointed Beijing Entity as its agent to undertake exhibition activities and marketing of the Group's products in Beijing, Bautou and Shanghai for a period from 1 February 2012 to 30 May 2012 (the "Exhibition Agreements"). BSHK advanced approximately HK$10,500,000 (equivalent to RMB8,600,000) to Beijing Entity for exhibition and marketing activities related expenses on 15 September 2011 according to the terms of the Exhibition Agreements;

(vi) Subsequent to 30 June 2011, there were cash received by 寶麗文化 totalling approximately HK$91,752,000 (approximately equivalent to RMB75,316,000) (the "Cash Inflow") from 4 individuals which were represented by the former management of the Group for partial settlement of the trade receivables due from the Distributor totalling approximately HK$114,411,000, full settlement of trade receivables due from two customers totalling approximately HK$3,114,000 and upfront payment for franchise agreement as set out in note 18(j) below. The Directors of the Company are not able to obtain sufficient information to satisfy themselves regarding the completeness and accuracy of the above mentioned purposes of the cash received by 寶麗文化 and therefore are in the opinion that no settlement of trade receivables nor upfront payment for franchise agreement were recorded. 寶麗文化 subsequently has made advances on behalf of BSHK to Henan Entity A, Henan Entity B and Beijing Entity as stated in note 18(c)(i) to (v) to the announcement with the Cash Inflow; and

(vii) Ms. Liu Xin, the former non-executive Director and chairman of the Company, held 40% equity interest in Henan Entity B up to 10 October 2011.

(d) As set out in the Company's announcement dated 7 March 2012, the Board has resolved to establish a special investigation committee, comprising one executive Director and two independent non-executive Directors of the Company, for the purpose of, inter alia, (i) investigating the issues raised by the predecessor auditors in their resignation letter; (ii) reviewing the internal control procedures and corporate governance policies of the Group; and (iii) making recommendation to the Board on appropriate actions to be taken.

(e) On 1 August 2011, BSHK entered into a rental agreement with Dutfield International Group Company Limited ("Dutfield") of which Chan Choi Har Ivy, a former executive Director of the Company and a director of nine subsidiaries of the Group, has owned 50% equity interest. The rental period was from 11 August 2011 to 15 January 2012 and the monthly rental with management fees amounted to approximately HK$660,000. Up to the date of the announcement of the Group, the entire amount was paid to Dutfield. BSHK appointed a legal adviser to issue legal letter to Dutfield for the recovery of the rent paid to Dutfield.

(f) On 14 May 2012, BSHK appointed an legal adviser to issue legal letter to Betterwin (Membership) Ltd ("Betterwin") for the recovery of HK$750,000 paid to Betterwin over a period of time on various debit notes claiming for marketing fee in connection to the spa management agreement entered into between the Macau Jockey Club Members' (H.K.) Association Limited and BSHK dated 18 December 2009.

(g) Subsequent to 30 June 2011, the inventories of 100 carbon laser machines were despatched to the Group by a Taiwan's supplier to settle the inventory deposits of carrying value amounted to HK$33,600,000 on 30 June 2011. On 22 March 2012, 27 carbon laser machines of carrying value totalling HK$9,072,000 stored in the Company's warehouse in Guangzhou were found lost. The Company reported the incident to both the Hong Kong and the PRC police for investigation. Details of which were set out in the Company's announcement dated 2 April 2012.

(h) On 5 April 2012, BSHK and Shum Yeung entered into a deed for terminating the acquisition of Vertical (the "Deed"). In accordance with the Deed, Shum Yeung would refund HK$4,500,000 to BSHK on the signing of the Deed and the remaining balance of HK$40,500,000 would be scheduled to repay the Group within three months from the date of the Deed. Details of the Deed were set out in the Company's announcement dated 5 April 2012.

(i) Subsequent to 30 June 2011, the Group entered into repayment schedules and inventory delivery schedules with four suppliers for settlement and repayment of inventory prepayments amounted to approximately HK$34,702,000 which classified as "Prepayment, Deposits and Other Receivables" in the consolidated statement of financial position at 30 June 2011.

(j) BSHK entered into three franchise agreements with Customer A, Customer B and Customer C dated 18 May 2011, 31 May 2011 and 9 May 2011 respectively and supplemental agreements with Customer A, Customer B and Customer C, pursuant to which Customer A, Customer B and Customer C has the right to use the trademark of the Group for trading products in Greater China region. Up to the date of the consolidated financial statement, license fee amounted to HK$12,500,000 were settled through 寶麗文化.

(k) On 8 February 2012 and 27 March 2012, the Company has entered into two loan agreements with Koffman Investment Limited ("Koffman") of which Mr. Yu Shu Kuen, who was appointed as an executive Director and managing Director of the Company on 13 February 2012, is the ultimate beneficial owner of Koffman, in the principle sum of HK$10,000,000 and HK$20,000,000 respectively.

   (i) Pursuant to the loan agreement signed on 8 February 2012, Koffman agreed to make available to the Company a loan facility up to HK$10,000,000 (the "Loan A") at interest rate of 10% per annum. In consideration of Koffman agreeing to make the Loan A available, each of Blu Spa Group Limited and Beachgold Assets Limited pledged their 50% interest in BSHK (the "Share Charge") to Koffman as continuing security for Loan A. On 7 May 2012, the Company has fully repaid all outstanding borrowings and interest to Koffman in the total sum of approximately HK$10,201,000 and a deed of release has been issued by Koffman, pursuant to which Koffman agreed to release the Share Charge.

   (ii) Pursuant to the loan agreement signed on 27 March 2012, Koffman agreed to make available to the Company a loan facility up to HK$20,000,000 (the "Loan B") for a term of 3 months from the date of the agreement at interest rate of 12% per annum. There is no security over the assets of the Group granted in respect of Loan B. Up to the date of the announcement, the total sum of loan borrowed from Koffman and interest repaid by the Company were approximately HK$17,539,000 and HK$132,000 respectively. Details of which were set out in the Company's announcement dated 2 April 2012.

EXTRACTED FROM INDEPENDENT AUDITORS' REPORT

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

BASIS FOR DISCLAMER 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 June 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.

DISCLAMER 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Turnover of the Group was approximately HK$53.4 million for the year ended 30 June 2011, representing a decrease of 46.4% as compared with that of the previous year (2010: HK$99.7 million). The decrease in turnover was mainly attributable to a decrease in the sales of beauty equipment from approximately HK$76.0 million in the previous year to approximately HK$35.3 million in the current year and a decrease of royalty fee income from approximately HK$8.6 million in the previous year to approximately HK$3.8 million in the current year.

The Group's gross profit for the year ended 30 June 2011 was approximately HK$15.9 million, representing a decrease of 76.3% as compared with that of the previous year (2010: HK$67.1 million). The decrease in gross profit was mainly due to the revenue contributed by the sales of beauty equipment of which the profit margin was relatively lower as compared with that of the previous year.

Selling and distribution costs decreased by 48.6% to approximately HK$8.3 million from approximately HK$16.1 million in prior year. Such decrease was in line with the decrease of the Group's turnover.

Administrative expenses increased by 20.8% to approximately HK$16.8 million from approximately HK$13.9 million in prior year. Such increase was mainly attributable to an increase of audit fee, legal and professional fee, rental expenses and salaries during the year under review.

During the year under review, the Group recorded an impairment loss recognized in respect of trade receivables and an impairment loss recognized in respect of deposits, prepayments and other receivables amounted to approximately HK$117.5 million and approximately HK$52.1 million respectively. The impairment loss recognised in respect of trade receivables was mainly comprised the outstanding receivable due from the Distributor amounted to approximately HK$114.4 million. The nature of the impairment loss recognised in respect of deposits, prepayments and other receivables was mainly the deposits and prepayments paid by the Group to its suppliers in relation to the purchase of raw materials and beauty products.

Finance costs increased by 133.3% to approximately HK$7.0 million from approximately HK$3.0 million in prior year. Such increase was mainly attributable to an increase of effective interest expenses of the convertible bonds issued by the Company on 29 April 2010.

Loss attributable to owners of the Company was approximately HK$185.7 million (2010: profit attributable to owners of the Company of HK$27.1 million). The deterioration in results was mainly attributable to the one-off expenses of impairment loss recognized in respect of trade receivables and impairment loss recognized in respect of deposits, prepayments and other receivables incurred during the year under review.

BUSINESS REVIEW

During the year under review, the turnover of the Group amounted to approximately HK$53.4 million, representing a decrease of 46.4% as compared with that of the previous year (2010: HK$99.7 million). Such decrease was mainly attributable to the decrease in the sales of beauty equipment and royalty fee income.

Sales of beauty equipment

During the year under review, the revenue contributed by the sales of beauty equipment was HK$35.3 million, representing a decrease of 53.6% as compared with that of the previous year (2010: HK$76.0 million). Such decrease was attributable to the reduction in orders from the Distributor. The gross profit margin decreased to 46.4% from 78.4% in prior year. The gross profit margin of the beauty equipments sold in the current year had a relatively lower gross profit margin as compared with that in the previous year.

Sales of beauty products

During the year under review, the sales of beauty products was approximately HK$10.6 million, representing a slight increase of 1.0% as compared with that of the previous year (2010: HK$10.5 million). Such increase was mainly contributed by the opening of a new skincare products sale counter located at Causeway Bay in October 2010. The gross profit margin decreased from 1.0% in the previous year to a gross loss margin of 7.9% as a result of extra sales discounts offered during the year under review.

Royalty fee income

During the year under review, the royalty fee income was approximately HK$3.8 million, representing a decrease of 55.8% as compared with the previous year (2010: HK$8.6 million). The decrease in the sales volume to the Distributor resulted in the decrease of the royalty fee income received by the Group.

Therapy services

The revenue derived from the provision of therapy services was approximately HK$3.1 million, representing an increase of 19.2% as compared with that of the previous year (2010: HK$2.6 million). Such increase was mainly contributed by the full operation of all the spa centres and hair rejuvenating centre during the year under review. A gross loss margin of 126% and 124% was recorded in the current year and the previous year respectively.

Provision of training courses

The revenue derived from the provision of training courses was approximately HK$0.5 million, representing a decrease of 75.0% as compared with that of the previous year (2010: HK$2.0 million). Such decrease was attributable to the decrease in the number of training courses provided in the PRC during the year under review.

PROSPECTS

The Group has continuously strengthened its management team which has been committed to rationalizing and reengineering its business strategy and processes to reduce costs and increase efficiency. In the long run, the Board will strive to resume trading in the shares of the Company on the Stock Exchange.

Up to the latest practicable date of this announcement, the Group had terminated four beauty products sale counters located at Central, Tsuen Wan, Tuen Mun and Tseung Kwan O respectively and one spa centre located at Tai Kok Tsui. In addition, the Group has the intention to terminate the operations of four spa centres located at Central, Causeway Bay, West Kowloon and Cheung Sha Wan respectively and the hair rejuvenating centre located at Central upon the expiry of their tenancy agreements. Meanwhile, the operations in the PRC had been suspended temporarily until the restructure of the mode of operations of the Group's business in the PRC have been completed. The Board believes that the streamline of the Group's operations can enable the Group to concentrate its resources for the development of its existing business.

In addition, a new spa centre located at Causeway Bay is expected to be opened in July 2012. The Group is under negotiation with a skincare product manufacturer in France for the grant of an exclusive distribution right by the manufacturer to the Group for the sale and distribution of its skincare products in certain territories. The Group is also under negotiation with a well renowned hairstylist in the United States to cooperate by way of forming a joint venture company to develop a new line of hair and skincare products. The management believes that the possible introduction of the new line of hair and skincare products and the possible appointment as an exclusive distributor of a French brand skincare products, together with the opening of the new spa centre, will position the Group's products and services at an high-end image and inject momentum to boost the Group's revenue in the long run.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2011, the Group had total assets of approximately HK$134.2 million (2010: HK$278.2 million), including cash and bank balances of approximately HK$1.4 million (2010: HK$1.8 million).

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

CAPITAL STRUCTURE

(a) Placing of new shares

On 29 November 2010, the Company and eight subscribers (the "Subscribers") entered into separate independent and conditional subscription agreements, pursuant to which the Subscribers had conditionally agreed to subscribe for and the Company had conditionally agreed to allot and issue, an aggregate of 80,000,000 shares of the Company under general mandate at a subscription price of HK$0.375 per subscription share. The subscription of the new shares was completed on 15 December 2010.

(b) During the year under review, 600,000,000 new shares were issued in respect of the conversion of convertible bonds in the principal amount of HK$114,000,000 at a conversion price of HK$0.19 per share.

(c) As at 30 June 2011, the total borrowings of the Group amounted to HK$2.0 million (2010: HK$71.7 million), representing the borrowing from a third party of HK$2.0 million which was unsecured, interest free and repayable within one year.

GEARING RATIO

The gearing ratio, expressed as percentage of total borrowings to total assets, was 1.5% (2010: 25.8%). The improvement in gearing ratio was mainly contributed by the conversion of the convertible bonds into new shares during the year.

CHARGE ON THE GROUP'S ASSETS

At 30 June 2011, the Group did not have any charge on its assets.

FOREIGN EXCHANGE RISK

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

COMMITMENTS

As at 30 June 2011, the Group had operating lease commitments of approximately HK$8.1 million (2010: HK$9.1 million).

CONTINGENT LIABILITIES

As at 30 June 2011, the Group had no contingent liabilities (2010: Nil).

EMPLOYEES

As at 30 June 2011, the Group had 100 employees. Their remuneration, promotion and salary review were assessed based on job responsibilities, work performance, professional experiences and the prevailing industry practices. The employees in Hong Kong joined the mandatory provident fund scheme.

SIGNIFICANT INVESTMENT

The Group did not enter into any new significant investment during the year ended 30 June 2011.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group did not make any material acquisitions and disposal of subsidiaries and affiliated companies for the year ended 30 June 2011.

FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

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

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") with written terms of reference in compliance with Rules 5.28 to 5.29 of the GEM Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control procedures of the Group. As at 30 June 2011, the Audit Committee comprised three independent non-executive Directors, namely, Mr. Chan Sze Hon, Mr. Lam Wai Pong and Ms. Liu Jiang. During the year under review, the Audit Committee held three meetings to review the Group's annual report, interim report and quarterly report.

As at the date of this announcement, the Audit Committee presently comprises two independent non-executive Directors, namely, Mr. Chu Kin Wang, Peleus and Mr. Tam B Ray, Billy. Following the removal of Mr. Cheng Hai ("Mr. Cheng"), an independent non-executive Director, pursuant to a special resolution passed at the extraordinary meeting held on 8 May 2012, the number of Audit Committee members fell below the requirements pursuant to Rule 5.28 of the GEM Listing Rules. The Board will make its best endeavours to seek suitable candidate for filling the vacancy within three months from the date of Mr. Cheng's removal. The Audit Committee has reviewed the annual results announcement for the year ended 30 June 2011 before proposing to the Board of approval.

CORPORATE GOVERNANCE PRACTICES

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

During the year under review and as at the date of this announcement, the Company has applied the principles as set out in the CG Code that are considered to be relevant to the Company and has complied with the code provisions of the CG Code during the year ended 30 June 2011 except for the following:

Chairman and Chief Executive Officer

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

Currently, the role of the chairman of the Board is performed by Mr. Du Juan Hong who possesses essential leadership skills. The Board believes that vesting the role of the chairman in Mr. Du provides the Company with consistent leadership, facilitates effective and efficient planning and implementation of business decisions and strategies.

Following the resignation of Ms. Keung Wai Fun, Samantha as the chief executive officer of the Company with effect from 7 March 2012, the role of the chief executive officer remains outstanding. The overall management of the Company was performed by Mr. Du and all the executive Directors of the Company whom have their respective areas of profession spearheaded the Group's overall development and business strategies.

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

Appointments, re-election and removal

Code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

The term of office for non-executive Directors of the Company is subject to retirement and by rotation and is eligible for re-election in accordance with the provisions of the Company's articles of association. At each annual general meeting, one-third of the Directors of the Company for the time being, (or if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation. As such, the Company considers that such provisions are sufficient to meet the objective of this code provision.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 30 June 2011, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

By order of the Board
China AU Group Holdings Limited
Du Juan Hong
Chairman

Hong Kong, 8 June 2012

As at the date of this announcement, the Board comprises four executive Directors, namely, Mr. Yu Shu Kuen, Mr. Wang Xiao Fei (with Mr. Lee Chan Wah as alternate), Mr. Wang Shang Zhong and Mr. Ji He Qun; one non-executive Director, namely, Mr. Du Juan Hong; and two independent non-executive Directors, namely, Mr. Tam B Ray, Billy and Mr. Chu Kin Wang, Peleus.

This announcement will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for a minimum period of 7 days from the date of its publication and on the Company's website at www.bluspa.com.