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)

HEADS OF AGREEMENT IN RELATION TO A POSSIBLE ACQUISITION OF INDIRECT INTEREST IN THE JOINT VENTURE COMPANY

ADVANCE TO AN ENTITY

This announcement is made pursuant to Rule 17.10 of the GEM Listing Rules.

The Board is pleased to announce that, after trading hours on 3 May 2010, the Purchaser (a wholly-owned subsidiary of the Company) entered into the HOA with the Vendor in relation to the Possible Acquisition of indirect interest in the Joint Venture Company. The principal business of the Joint Venture Company is the e-Medical Card Project.

The Board wishes to emphasize that no binding agreement in relation to the Possible Acquisition has been entered into as at the date of this announcement. As the Possible Acquisition may or may not materialize, Shareholders and/or potential investors should therefore exercise caution when dealing in the shares of the Company.

References are made to the announcements of the Company dated 9 December 2009 and 25 February 2010 (the "**Announcements**") in relation to the letter of intent dated 9 December 2009 (the "**LOI**") (as supplemented by the supplemental letter of intent (the "**Supplemental LOI**") dated 25 February 2010) entered into between the Purchaser and ZSTC in relation to the Possible Acquisition. Reference is also made to the announcement of the Company dated 28 January 2010 in relation to the extension of time in relation to the LOI. Unless otherwise stated, capitalised terms used in this announcement shall have the same meanings as defined in the Announcements.

* *For identification purposes only*

This announcement is made pursuant to Rule 17.10 of the GEM Listing Rules.

Further to the LOI and the Supplemental LOI, the Parties agree to enter into the HOA to set out the principal terms and the form of the S&P Agreement agreed by the Parties in respect of the Possible Acquisition.

THE POSSIBLE ACQUISITION

The Board is pleased to announce that, after trading hours on 3 May 2010, the Purchaser (a wholly-owned subsidiary of the Company) entered into the HOA with the Vendor and the Guarantor in relation to the Possible Acquisition of the Sale Shares.

Date:

3 May 2010

Parties:

Purchaser:	Castletop Assets Limited, a wholly-owned subsidiary of the Company
Vendor:	Mr. Denny Ye Lin
Guarantor for the Vendor:	ZSTC and Mr. Lin

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, each of the Vendor and the Guarantor is a third party independent of the Company and its connected persons (as defined in the GEM Listing Rules). Based on the information provided by the Vendor, the Target Company is beneficially wholly-owned by the Vendor.

Assets to be acquired:

The Vendor shall sell and the Purchaser shall purchase the Sale Shares, which is the entire issued share capital of the Target Company, on the terms of and subject to the conditions of the S&P Agreement.

Based on the information provided by the Vendor, the principal assets of the Target Group will be the indirect interest of 80% interest in the Joint Venture Company.

Major terms of the HOA

Under the HOA, it is proposed that the Purchaser will acquire the Sale Shares from the Vendor. The Purchaser has, pursuant to the HOA, paid ZSTC a sum of HK$10 million as further refundable earnest money ("**Further Earnest Money**"). The Further Earnest Money will be dealt with in the same manner as the deposits in the aggregate sum of HK$15 million ("**Earnest Money**") already paid pursuant to the LOI and the Supplemental LOI. If the parties fail to sign the formal S&P Agreement or if the Possible Acquisition fails to proceed by 31 August 2010 for whatsoever reason, the Earnest Money and the Further Earnest Money in the total sum of HK$25 million will be refunded to the Purchaser in full within 3 business days.

It is proposed that the Parties will proceed to negotiate and finalize the terms of the S&P Agreement by 31 August 2010. The consideration for the Possible Acquisition will be determined subject to the results of due diligence by the Purchaser and the Company and further negotiation of the Parties. Such consideration is expected to be settled by a combination of cash and issue of convertible securities of the Company.

Completion of the S&P Agreement shall be conditional upon, inter alia, the following:

(a) all relevant or applicable regulatory requirements (including without limitation those under the GEM Listing Rules) having been complied with and satisfied;

(b) the approval by the shareholders of the Company in compliance with the requirements of the GEM Listing Rules and the applicable laws, rules and regulations;

(c) the GEM Listing Committee having granted the listing of, and permission to deal in, the conversion shares for the conversion of the relevant convertible securities and such listing and permission not subsequently being revoked prior to the delivery of the certificates of the convertible securities;

(d) the Purchaser having satisfied with the results of the due diligence investigation on the Target Company;

(e) the reorganisation of the Target Group having been completed;

(f) the warranties given by the Vendor remaining true and correct in all material respects;

(g) Each Member of the Target Group having performed or complied with all the agreements, obligations and conditions stipulated under the S&P Agreement;

(h) there being no matter adversely affecting or to be adversely affecting the principal business, operations, financial conditions and prospects of the Target Group;

(i) the current listing status of the Shares not having been withdrawn or suspended and the Stock Exchange not having indicated in writing that the listing status of the Shares is subject to withdrawal or suspension before the completion;

(j) the issue of a PRC legal opinion on matters relating to the PRC aspects of the transactions contemplated in the S&P Agreement to the satisfaction of the Purchaser; and

(k) execution of all the relevant documents by ZSTC and the Joint Venture Company.

The Vendor and the Guarantor shall guarantee to the Purchaser the net profit of the Joint Venture Company (amount to be determined in the course of further negotiation prior to the signing of the S&P Agreement) in relation to e-Medical Card Project for the first 2 years after the completion of the S&P Agreement.

The Guarantor, as primary obligor, shall also undertake and guarantee the full, prompt and complete performance by the Vendor of all its obligations under the S&P Agreement.

If the S&P Agreement is entered into, it is expected that the Possible Acquisition may constitute a notifiable transaction on the part of the Company pursuant to the GEM Listing Rules. In this regard, the Company will comply with the reporting, disclosure and/or Shareholders' approval requirements under the GEM Listing Rules.

The Board wishes to emphasize that no binding agreement in relation to the Possible Acquisition has been entered into as at the date of this announcement. As the Possible Acquisition may or may not materialize, Shareholders and/or potential investors should therefore exercise caution when dealing in the shares of the Company.

Reasons for the Possible Acquisition

The principal activities of the Group are development, distribution and marketing of personal care treatment products. The Company has been exploring potential business opportunities with a view to enhancing its earning potential through diversification of business risks. The Company viewed the Possible Acquisition as a good opportunity to venture into a new business and broaden its revenue base. Meanwhile, the Company will continue to explore further business opportunities to diversify into other industries with good business potential and growth prospects.

IMPLICATIONS UNDER THE GEM LISTING RULES

Advance to entity

The payment of the Earnest Money and the Further Earnest Money constitutes an advance to an entity for the Company under the GEM Listing Rules. Given that the aggregate amount of the Earnest Money and the Further Earnest Money exceeds 8% of the assets ratio of the Company as defined under Rule 19.07(1) of the GEM Listing Rules, the Company is required to make the relevant disclosures under Rule 17.17 of the GEM Listing Rules.

DEFINITIONS

"Board"	the board of Directors
"Company"	China AU Group Holdings Limited, a company incorporated in the Cayman Islands with limited liability and whose shares are listed on GEM (Stock Code: 8176)
"connected person"	has the meaning ascribed to it under the GEM Listing Rules
"Directors"	the directors of the Company
"e-Medical Card Project"	the business of research, development and operation of an electronic medical card system using the radio frequency identification technology in the PRC
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM
"Group"	the Company and its subsidiaries
"Guarantor"	ZSTC and Mr. Lin
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HOA"	the heads of agreement dated 3 May 2010 entered into between the Purchaser, the Vendor and the Guarantor setting out the preliminary understanding in relation to the Possible Acquisition
"Hong Kong"	Hong Kong Special Administrative Region of the PRC

"Joint Venture Company"	北京中成金豐醫療科技有限公司, a sino-foreign cooperative joint venture company in the PRC which is owned as to 20% by ZSTC and as to 80% by Luck State Limited (a wholly owned subsidiary of the Target Company)
"Mr. Lin"	Mr. Lin Yingqiu, the chairman, sole director and legal representative of ZSTC
"Parties"	parties to the HOA and the S&P Agreement, i.e. the Purchaser, the Vendor and the Guarantor
"Possible Acquisition"	the intended acquisition of the Sale Shares by the Purchaser or its nominee
"PRC"	The People's Republic of China, for the purpose of this announcement, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
"Purchaser"	Castletop Assets Limited, a company incorporated in British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
"Sale Shares"	the entire issued share capital of the Target Company
"Share(s)"	ordinary share(s) of HK$0.10 each in the issued share capital of the Company
"Shareholders"	holder(s) of the Share(s)
"S&P Agreement"	formal agreement for the sale and purchase of the Sale Shares to be entered into between the Vendor, the Purchaser and the Guarantor
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Company"	Utopia Capital Limited, a company incorporated in British Virgin Islands and which is beneficially owned by the Vendor
"Target Group"	The Target Company and its subsidiaries and a "**Member of the Target Group**" shall be construed accordingly
"Vendor"	Mr. Denny Ye Lin, the son of Mr. Lin

"ZSTC"	中成衛星技術中心有限公司 (Zhongcheng Satellite Technology Center Co., Ltd)*, a limited liability company established in the PRC and wholly owned by Mr. Lin
"%"	per cent

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

Hong Kong, 3 May 2010

* *The English transliteration of the Chinese name(s) in this announcement, where indicated, is included for information only and should not be regarded as its official English name(s) of such Chinese name(s).*

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

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited 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: (i) the information contained in this announcement is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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