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福和集團控股有限公司
FOOK WOO GROUP HOLDINGS LIMITED

Fook Woo Group Holdings Limited

福和集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 923)

FOLLOW-UP ANNOUNCEMENT MADE PURSUANT TO RULE 13.09(1) OF THE LISTING RULES

This announcement is made by Fook Woo Group Holdings Limited (the “**Company**” and, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

Reference is made to the announcements of the Company dated 2 December 2011, 30 December 2011, 30 January 2012, 29 February 2012, 30 March 2012, 30 April 2012, 2 May 2012, 28 June 2012, 5 July 2012, 11 July 2012 and 26 September 2012 (together, the “**Announcements**”). Save as otherwise defined, terms used in this announcement shall have the same meanings as used in the Announcements.

Highlights of Forensic Review Findings

The Board would like to report that the Forensic Review conducted by the forensic investigation team of an independent accounting firm (the “**Independent Accounting Firm**”) into the Incident following the preliminary investigation results of Baker Tilly has been completed. In the course of the investigation by the Independent Accounting Firm, apart from the findings relating to the Incident, other irregularities have been detected. The irregularities mainly concern the Group’s operations in the People’s Republic of China (the “**PRC**”) involving its indirect wholly-owned subsidiary, 惠州福和紙業有限公司(Huizhou Fook Woo Paper Company Limited) (“**HZFW**”). A summary of the Independent Accounting Firm’s material findings pursuant to the Forensic Review is highlighted as follows:

1. The Incident

As disclosed in the Company’s announcement dated 30 March 2012, Baker Tilly’s preliminary investigations into the Incident revealed that an unauthorised loan of RMB100 million had been made by certain former employees of a subsidiary of the Company, (including the sister of the former chairman of the Company, Mr Leung Kai Kuen) to a third party without the knowledge of the Board.

Based on the Forensic Review, it has now been found that the purported loan of RMB100 million was not in fact made and that the funds were not transferred out of the accounts of the relevant subsidiary. The Forensic Review further revealed that the documents reviewed by Baker Tilly in the course of its investigation are likely to have been fabricated. The fabricated documents reviewed by Baker Tilly include a loan agreement with the purported third party and bank documents in relation to the purported fund outflow.

Based on Baker Tilly's preliminary investigation results into the Incident, Mr Leung Kai Kuen represented that he had repaid the purported loan plus interest in the total amount of HK\$122,566,949.61 to the Company. The Forensic Review confirmed such amounts were deposited into the bank accounts of the Company.

2. Irregular transactions

The Forensic Review has revealed the following irregular transactions:

- a) It was disclosed in the Company's announcement dated 1 April 2011 (the "**April 2011 Announcement**") that, on 30 March 2011, Fook Woo Promotion Limited entered into an agreement (the "**Asset Transfer Agreement**") with 中山市寶麗紙業有限公司 (Zhongshan Baoli Paper Co., Ltd.) ("**Zhongshan Baoli**") to (i) acquire certain trademarks registered in Hong Kong and the PRC; (ii) acquire the distribution network of Zhongshan Baoli in relation to the tissue paper products marketed under the name of the trademarks; and (iii) prepay certain tissue paper products to be supplied by Zhongshan Baoli at the total consideration of RMB157,500,000 (equivalent to approximately HK\$186,832,740). The trademarks, namely "Polly 絲彩" (Hong Kong trademark registration no. 300253188) and "AUS. & NEW. 澳紐" (Hong Kong trademark registration no. 300307232) are currently owned by Hui Zhou Fook Woo Paper Company Limited (a Hong Kong incorporated subsidiary of the Company), whilst "宝丽 POLLY" (PRC trademark registration no. 4664464) and "澳紐 AUS&NEW" (PRC trademark registration no. 5807706) are currently owned by HZFW.

The Forensic Review revealed that the equity interest in Zhongshan Baoli was acquired by its current owners (the "**Current Owners**") on 23 March 2011 at the total consideration of RMB500,000. Based on the Company's internal records, it appears that the previous management of the Company might have been involved in the acquisition of the entire equity interest in Zhongshan Baoli by the Current Owners and the subsequent transfer of the assets by Zhongshan Baoli to the Group as stated in the April 2011 Announcement. The Current Owners, who are ex-employees of HZFW, claim that they do not know the details of the acquisition of Zhongshan Baoli or the assets transferred as stated in the April 2011 Announcement. They also claimed that they were asked to act as shareholders and one of them as the legal representative of Zhongshan Baoli by certain ex-management personnel of the Group. The Current Owners confirmed that they are holding the equity interest of Zhongshan Baoli on behalf of HZFW.

Owing to the loss of the Company's records, the Company cannot locate the original signed Asset Transfer Agreement. Subsequently, in the course of the Forensic Review, more than one version of the draft equity transfer contract in respect of the acquisition of the entire equity interest in Zhongshan Baoli was located. The draft equity transfer contracts prepared by a PRC lawyer who assisted HZFW stated that the Current Owners would acquire the entire equity interest, the operation rights and interests of Zhongshan Baoli at a consideration significantly lower than RMB157,500,000. However, payments of approximately RMB16.6 million (equivalent to approximately HK\$HK\$19,024,723) in total were identified to have been paid by HZFW to Zhongshan Baoli or in connection with the acquisition of Zhongshan Baoli. It appears that the Asset Transfer Agreement referred to in the April 2011 Announcement may have been fabricated.

- b) Pursuant to a purchase contract entered into by HZFW, HZFW agreed to purchase a waste paper sorting system at a total consideration of US\$19,300,000 (equivalent to approximately HK\$150.54 million). Payments totalling approximately HK\$89.2 million (equivalent to approximately US\$11,470,000) have been made by the Group to the purported seller and RMB2,500,000 (equivalent to approximately HK\$3,012,048) has been made by the Group to another company at the direction of the purported seller. Irregularities in relation to the transaction documentation, the authorisation process and the identity of the purported seller were detected. It was found that the correspondence address of the purported seller was occupied by a company which apparently did not have any business relationship with the purported seller. The representatives of the purported seller have not produced documentation related to the transaction upon request by the Company and have also refused requests for an on-site visit for the inspection of the waste paper sorting system. As at the date of this announcement, the waste paper sorting system has not been delivered to HZFW.
- c) A tissue machine line and a tissue winder machine were purchased by HZFW at a total consideration of EUR13,600,000 (equivalent to approximately HK\$143,685,398) and EUR3,562,500 (equivalent to approximately HK\$37,762,500) respectively at inflated prices due to the interposition of a third party. The prices for the tissue machine line and a tissue winder machine were inflated by EUR6,800,000 (equivalent to approximately HK\$71,842,699) and EUR2,137,500 (equivalent to approximately HK\$22,657,500) respectively. It was revealed that two sets of contracts were signed in relation to each purchase – one contract between the machinery supplier and the interposed third party and one contract between the interposed third party and HZFW at the inflated price. With the exception of the parties and the consideration, the two sets of contracts had largely identical terms. It was found that former employees of the Group had knowledge about the two sets of contracts relating to each purchase. Further sums of HK\$12,000,000 and EUR133,000 (equivalent to approximately HK\$1,470,829) have been paid to the interposed third party regarding the purported purchase of a vacuum dust system and various components respectively. Apart from the tissue machine line and tissue winder machine which have been delivered, the Company is not able to ascertain whether components have been received and no separate dust removal system was ordered by HZFW.

3. **Accounting records**

The Forensic Review has revealed material irregularities in HZFW's accounts as set out below:

a) **Inconsistent sales records**

The review of the accounts receivable breakdown of HZFW as of 30 September 2011 and the sales breakdown for the six months ended 30 September 2011 prepared by the Group for the purposes of Baker Tilly's review was conducted. The breakdown of accounts receivable matched those previously provided to the Company's auditors, Pricewaterhouse Coopers ("PwC") for the purposes of conducting the interim review. However, there are significant discrepancies between the information obtained by the Independent Accounting Firm from Baker Tilly and PwC (collectively, the "**Auditors' Records**") and the information on the accounting system of HZFW ("**HZFW's Records**") in relation to the financial position and the financial performance of HZFW. Sales for the six-month period ended 30 September 2011 recorded in the Auditors' Records exceeded that stated in HZFW's Records by RMB379 million. The accounts receivable as at 30 September 2011 stated in the Auditors' Records exceeded that recorded in HZFW's Records by RMB451 million. However, it cannot be ascertained as to which sets of records are accurate because HZFW's Records do not contain information prior to 2009.

b) **Possible fabrication of accounting records**

Certain transactions recorded in the bank statements obtained from the Auditors' Records in respect of the two main operating bank accounts of HZFW in the PRC during the period from August 2011 to January 2012 are not found in the bank statements obtained directly from the relevant banks nor HZFW's Records, although the opening and closing balances in both sets of bank statements are the same.

There are incomplete printouts of bank ledgers of HZFW for 10 bank accounts from the period from April to October 2011. A comparison of the bank ledgers recorded in HZFW's Records and the bank statements obtained directly from the banks was conducted. It was revealed that of the total inflow of RMB1,088 million and the outflow of RMB1,097 million tested, RMB570 million inflow and RMB635 million outflow could not be identified in HZFW's Records nor bank statements obtained directly from the relevant banks.

c) **Multiple sets of accounting books for HZFW**

The Forensic Review also revealed that two sets of accounting books were maintained by HZFW including the HZFW Records and accounting books prepared for PRC tax filing purposes (the "**External Books**"). It is possible that there might be another set of accounting books and records which was used to prepare information provided to the Company's auditors and Baker Tilly.

4. Missing accounting records

As disclosed in the Company's announcement dated 2 May 2012, certain books and records of HZFW were found to be missing. The missing documents include the accounting books prepared for the purposes of PwC's review of the 30 September 2011 interim results, documents to be used for the preparation of the October 2011 tax audit and documents from several departments in HZFW up to 13 March 2012. Some accounting vouchers for the period from January to March 2011 were subsequently located in the abandoned employee quarters of former employees of the Company stationed in Huizhou.

Financial analysis

In parallel with the Forensic Review, the Company has engaged the financial advisory team of the Independent Accounting Firm to conduct a financial analysis of the Group including the structure and business activities of the Group; conducting analyses on the significant assets and liabilities as at 31 March 2012 and significant profit and loss items of the Group for the year end 31 March 2012; and identifying the top 10 customers and suppliers of HZFW for the year ended 31 March 2012, and any potential hidden relationship, arrangements and/or transactions with such customers/suppliers (if any). The financial analysis is in the process of being finalised.

Group re-organisation and internal control review

In light of the irregularities identified in the course of the Forensic Review, the Company is working with the financial advisory team of the Independent Accounting Firm to formulate a proposal in relation to the re-organisation of the structure of the Group and the restructuring of the businesses of the Group with a view to resumption of the trading of its shares as soon as practicable. The Company has also engaged an independent firm to conduct a review of the internal control system of the entities in the re-organised corporate structure pending the finalisation of the re-organisation proposal of the Group.

The Company will make further announcement(s) in relation to the financial analysis and the corporate re-organization as and when appropriate in accordance with the Listing Rules.

For the purposes of this announcement, save as otherwise disclosed, the exchange rates used for converting amounts in RMB, US\$ and EUR into HK\$ equivalents are based on the then current spot rates and/or book rates (as deemed appropriate by the Independent Accounting Firm). These rates are for illustration purposes only and do not constitute representations that any amount in RMB, US\$, EUR or HK\$ have been, could have been or may be converted at such rates.

By order of the Board
FOOK WOO GROUP HOLDINGS LIMITED
Cheng Chi Ming, Brian
Chairman

Hong Kong, 31 October 2012

As at the date of this announcement, the Board comprises two executive directors, namely, Mr. Suen Wing Yip and Mr. Lau Sai Cheong; three non-executive directors, namely, Mr. Cheng Chi Ming, Brian (Chairman), Ms. Li Zhe and Ms. Cheung Nga Lai, Carol; and three independent non-executive directors, namely, Mr. Lau Shun Chuen, Mr. Chung Wai Kwok, Jimmy and Mr. Lee Kwok Chung.