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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 THE  
INSIDE INFORMATION PROVISIONS AND  
RULE 13.09 OF THE LISTING RULES**

This announcement is made by the Company pursuant to the Inside Information Provisions (as defined in the Listing Rules) and Rule 13.09 of the Listing Rules.

The Board wishes to inform the Shareholders and potential investors of the Company that on 16 January 2013, the financial analysis conducted by the financial advisory team of the Independent Accounting Firm was completed.

Reference is made to the announcement of the Company dated 31 October 2012 (the “**Announcement**”). Save as otherwise defined, terms used in this announcement shall have the same meanings as used in the Announcement.

**FINANCIAL ANALYSIS**

The Board would like to report that the Financial Analysis conducted by the financial advisory team of the Independent Accounting Firm was completed on 16 January 2013. The Financial Analysis revealed that the majority of the irregularities concern HZFW, the major operating entity of the Group in the PRC.

In addition to the irregular transactions and the material irregularities in relation to HZFW’s accounting records as disclosed in the Announcement, a summary of the material findings of the Financial Analysis conducted by the Independent Accounting Firm is set out as follows:

## **1. Incomplete books and records of HZFW**

### a) Deficiencies in warehouse records and inventory accounting information

The Financial Analysis revealed that HZFW did not maintain proper warehouse records to record the movement of its stocks including waste paper and tissue paper. The available warehouse records did not match with the records maintained by the accounting staff of HZFW as numerous differences exist for the closing stocks as of 31 March 2012. HZFW's accounting treatment of inventory and costs of sales was not compliant with generally accepted accounting principles. Based on the physical counts performed in April to June 2012 for the waste paper, major raw materials, finished goods and other inventories including spare parts, and applying the latest purchase prices for waste paper and raw materials or unit costs of tissue products recorded in HZFW's Records, the inventory value of HZFW's waste paper, major raw materials and finished goods as of 31 March 2012 was estimated to amount to RMB73 million which was lower than their book value by RMB18 million. There was also insufficient information for estimating the closing value of the remaining inventory temporarily stored in the workshops and other inventories including spare parts.

### b) Fixed assets records

There was uncertainty in relation to the net book value of HZFW's fixed assets. According to HZFW's Records, the total cost of its fixed assets amounted to RMB150 million as of 31 March 2012. However, HZFW's Records appear to be incomplete and fixed assets were not recorded by asset items. The External Books show that as at 31 March 2012, the total cost of fixed assets was RMB326 million. It is not possible to ascertain the completeness and accuracy of the External Books as no fixed asset count was ever performed based on such records. The current management of HZFW has carried out a full count of the fixed assets in July 2012. However the costs and depreciation of the assets in the list have yet to be quantified.

## **2. Poor performance of the tissue paper operation of HZFW**

According to HZFW's Records, HZFW was loss making for the financial year ended 2012. Based on HZFW's Records, the pro forma EBITDA for the financial year ended 2012 was estimated to be a loss of around RMB67 million<sup>1</sup>. Based on the costing sheets, the average production cost of tissue paper was RMB7,616 per ton while the average selling price was RMB6,544 per ton in the financial year ended 2012, and HZFW was operating at below its full capacity.

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<sup>1</sup> The calculation of the pro forma EBITDA was subject to inherent limitation of the presentation of pro-forma and owing to the lack of relevant information, some of the adjustments were not quantifiable.

### **3. Off-book bank accounts**

The Financial Analysis revealed 25 bank accounts which were not accounted for in HZFW's Records, of which (a) 9 off-book bank accounts were in the name of HZFW, 7 out of these 9 bank accounts were dormant with minimal balance as of 31 March 2012. It has not been ascertained whether the remaining 2 bank accounts were closed before 31 March 2012; and (b) 16 off-book bank accounts were in the names of former senior employees of HZFW or their relatives. The Independent Accounting Firm reviewed the statements of 5 out of these 16 bank accounts for the period since 1 January 2010 or their respective opening dates up to 31 March 2012 or their account closing dates (if earlier). The statements showed that the 5 accounts had a closing balance totaling RMB0.8 million as of 31 March 2012 and that there were deposits totaling RMB25.2 million and withdrawals totaling RMB24.7 million up to 31 March 2012 or their respective account closing dates (if earlier). Deposits amounting to RMB9.6 million were from certain customers and personal bank accounts of the sales staff of two companies affiliated with HZFW. Deposits of RMB5 million represented the funds received as a result of the maturity of monetary investments and RMB2.7 million represented funds transferred from known bank accounts. Withdrawals totaling RMB5 million were for monetary investments while RMB4.8 million were transferred to known bank accounts. Owing to the missing books and records of HZFW, the nature of deposits of RMB7.9 million and withdrawals of RMB14.9 million cannot be ascertained. The remaining 11 off-book bank accounts held by individuals show minimal closing balances. However, the Independent Accounting Firm was only able to obtain the bank books which cover the transactions from the period from 29 September 2006 to 21 March 2011. Therefore, it cannot be ascertained whether there were any material transactions outside the relevant period.

### **4. Undisclosed affiliated companies of HZFW**

The Financial Analysis revealed HZFW provided the initial capital and/or operating funding for 18 companies, 8 of which were set up to conduct waste paper trading business and the remaining 10 of which were set up with the purpose of holding waste paper trading licences or developing confidential material disposal business and tissue paper trading business in different geographic areas of the PRC. Of the 18 companies, only 7 companies appear to be operating and engaged in waste paper trading business and the remaining 11 companies are dormant. The legal representatives or shareholders of these 18 affiliated companies are either relatives of the former management or former employees of HZFW. It appears that no ledger was kept by these companies and their financial records are incomplete. The current management has appointed accounting firms to prepare ledgers based on available financial records. Up to the cut-off date (i.e. 13 September 2012) of the Financial Analysis, financial statements as of 31 March 2012 have been prepared for the 7 operating companies.

HZFW's Records show that up to 31 March 2012, HZFW made significant advances to 9 affiliated companies and 3 branch offices (which were not able to match with any of the affiliated companies). Differences were identified in the balances between HZFW's Records and the financial statements of the corresponding entities. However, the Independent Accounting Firm is not able to reconcile the differences due to the lack of accounting records of the affiliated companies.

#### **5. HZFW's capital commitments as of 31 March 2012**

The Independent Accounting Firm was provided with 122 copy contracts by the employees of HZFW. Based on the contracts and HZFW's Records, the total contractual amount is approximately RMB347 million, out of which approximately RMB150 million were recorded payments and approximately RMB197 million were capital commitments as of 31 March 2012, which mainly represented commitments relating to two new production lines and the construction of various buildings and infrastructure.

The Auditor provided to the Independent Accounting Firm photocopies of 41 contracts with a total contract sum of approximately RMB682 million relating to HZFW's acquisition of machinery and construction of buildings. Among the 41 contracts, 11 machinery acquisition contracts and 10 construction contracts have similar terms to the contracts provided by the employees of HZFW. Nevertheless, the total value of these contracts exceeded the value shown in the copy contracts provided by the employees of HZFW by approximately RMB176 million. The employees of HZFW advised that they were not aware of the contracts for which the Auditor had provided photocopies.

#### **6. Potential undisclosed related party transactions**

The Financial Analysis revealed the following potential undisclosed related party transactions between HZFW and the following entities:

a) a PRC company

HZFW's Records recorded numerous transactions between HZFW and a PRC company which, as advised by the staff of HZFW, was owned and/or controlled by a son of Mr. Leung Kai Kuen during the financial years ended 2010, 2011 and 2012. The major transactions related to the supply of waste plastics, purchase of land use rights for that PRC company and provision of funds and utilities by HZFW. The supporting documentation for such transactions could not be located.

HZFW also made payments to various construction contractors, with a total contract value of RMB9.9 million relating to the construction of some buildings erected on the land owned by the said PRC company. As of 31 March 2012, HZFW had paid a total of RMB9.4 million to the relevant contractors.

b) a Philippines company

HZFW entered into a contract with a supplier on 13 July 2011 to purchase a batch of steel structure for a new plant. Based on HZFW's Records, payments totaling approximately RMB2.5 million were made to such supplier. HZFW's management advised that the relevant steel structure was purchased for a company incorporated in the Philippines of which a son of Mr. Leung Kai Kuen as the chairman.

## **GROUP RE-ORGANISATION AND INTERNAL CONTROL REVIEW**

In light of the irregularities identified in the course of the Forensic Review and the Financial Analysis, 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 corporate re-organization as and when appropriate in accordance with the Inside Information Provisions (as defined in the Listing Rules) and the Listing Rules.

## **DEFINITIONS**

“Announcement”	the announcement of the Company dated 31 October 2012
“Board”	the board of Directors
“Company”	Fook Woo Group Holdings Limited, a company incorporated in the Cayman Islands with limited liability, and the shares of which are listed on the Stock Exchange of Hong Kong Limited
“Director(s)”	the director(s) of the Company
“EBITDA”	earnings before interest, tax, depreciation and amortization

“Financial Analysis”	the financial analysis of the Group as at the cut-off date of 13 September 2012 which was conducted by the financial advisory team of the Independent Accounting Firm
“Group”	the Company and its subsidiaries from time to time
“HZFW”	惠州福和紙業有限公司 (Huizhou Fook Woo Paper Company Limited), a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of Wealthy Peaceful Company Limited
“Shareholder(s)”	holder(s) of the shares of HK\$0.1 each of the Company
“%”	per cent.

By Order of the Board  
**Fook Woo Group Holdings Limited**  
**Cheng Chi Ming, Brian**  
*Chairman*

Hong Kong, 17 January 2013

*As at the date of this announcement, the Board comprises three executive directors, namely, Mr. Suen Wing Yip, Mr. Lau Sai Cheong and Mr. Lai Hau Yin; two non-executive directors, namely, Mr. Cheng Chi Ming, Brian (Chairman) and Mr. Tsang On Yip, Patrick; and three independent non-executive directors, namely, Mr. Lau Shun Chuen, Mr. Chung Wai Kwok, Jimmy and Mr. Lee Kwok Chung.*