



EDS Wellness Holdings Limited

(Formerly known as 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)

THIRD QUARTERLY REPORT FOR THE NINE MONTHS ENDED 31 MARCH 2013

* *For identification purpose only*

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This report, for which the directors (the “Directors”) of EDS Wellness Holdings Limited (formerly known as China AU Group Holdings Limited) (the “Company”) collectively and individually accept 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 enquires, confirm that to the best of their knowledge and belief the information contained in this report 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 report misleading.

This report 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.eds-wellness.com.

UNAUDITED QUARTERLY RESULTS

The board of Directors of (the “Board”) is pleased to announce the unaudited condensed consolidated third quarterly results of the Company and its subsidiaries (the “Group”) for the nine months ended 31 March 2013 together with the comparative unaudited figures for the corresponding period in 2012 as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months and nine months ended 31 March 2013

	Notes	For the three months ended 31 March		For the nine months ended 31 March	
		2013 (Unaudited) HK'000	2012 (Unaudited) HK'000	2013 (Unaudited) HK'000	2012 (Unaudited) HK'000
Turnover	4	1,012	—	5,406	—
Cost of sales		(2,344)	—	(9,123)	—
Gross loss		(1,332)	—	(3,717)	—
Other revenue		1,738	—	1,740	—
Selling and distribution costs		(383)	—	(1,032)	—
Administrative expenses		(4,858)	(548)	(13,749)	(2,563)
Impairment loss recognised in respect of intangible assets		—	—	—	(7,488)
Impairment loss recognised in respect of deposits, prepayments and other receivables		—	(8,647)	(90)	(238,092)
Gain on de-consolidation of subsidiaries		—	—	—	155,547
Finance costs	5	(981)	(99)	(2,526)	(99)
Loss before taxation		(5,816)	(9,294)	(19,374)	(92,695)
Income tax expense	7	—	—	—	—
Loss for the period	6	(5,816)	(9,294)	(19,374)	(92,695)
Other comprehensive income					
Release of translation reserve upon de-consolidation of subsidiaries		—	—	—	4
Other comprehensive income for the period		—	—	—	4
Total comprehensive expenses for the period		(5,816)	(9,294)	(19,374)	(92,691)
Loss for the period attributable to:					
Owners of the Company		(5,816)	(9,294)	(19,374)	(92,695)
Total comprehensive expense for the period attributable to:					
Owners of the Company		(5,816)	(9,294)	(19,374)	(92,691)
Loss per share (HK cent(s))	9				
— Basic and diluted		(0.44)	(0.71)	(1.48)	(7.14)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on 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 principal place of business of the Company is 19/F., Prosperity Tower, No. 39 Queen's Road Central, Central, Hong Kong.

The unaudited condensed consolidated financial statements are presented in Hong Kong dollars ("HK\$"), which is the same as the functional currency of the Company and all values are rounded to the nearest thousand ("HK\$'000") except otherwise indicated.

The Company's principal activity is investment holding and the principal activities of its principal subsidiaries are developing, distributing and marketing of personal care treatment, products and services.

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

The accounting policies used in the unaudited condensed consolidated results for the nine months ended 31 March 2013 are consistent with those used in the annual financial statements of the Group for the year ended 30 June 2012, except for the impact of the adoption of the new and revised Hong Kong Accounting Standards ("HKASs"), HKFRSs and interpretations described below:

In the current period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income.
HKAS 12 (Amendments)	Deferred Tax — Recovery of Underlying Assets

The adoption of the new and revised HKFRSs has no material effect on the unaudited condensed consolidated financial statements for the current or prior accounting period.

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

Annual Improvements 2009–2011 Cycle	Amendments to a number of HKFRSs issued in June 2012 ¹
HKFRS 1 (Amendments)	Amendments to HKFRS 1 First Time Adoption of Hong Kong Financial Reporting Standards — Government Loans ¹
HKFRS 7 (Amendments)	Disclosures — Offsetting Financial Assets and Financial Liabilities ¹
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosure ³
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance ¹
HKFRS 10, HKFRS 11 and HKAS 27 (Amendments)	Investment Entities ²
HKFRS 9	Financial Instruments ³
HKFRS 10	Consolidated Financial Statements ¹
HKFRS 11	Joint Arrangements ¹
HKFRS 12	Disclosure of Interest in Other Entities ¹
HKFRS 13	Fair Value Measurement ¹
HKAS 19 (2011)	Employee Benefits ¹
HKAS 27 (2011)	Separate Financial Statements ¹
HKAS 28 (2011)	Investments in Associates and Joint Ventures ¹
HKAS 32 (Amendments)	Presentation — Offsetting Financial Assets and Financial Liabilities ²
HK(IFRIC) — Int 20	Stripping Costs in the Production Phase of a Surface Mine ¹

¹ Effective for annual periods beginning on or after 1 January 2013

² Effective for annual periods beginning on or after 1 January 2014

³ 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 and revised 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.

3. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The unaudited condensed consolidated financial statements have been prepared in accordance with HKFRSs, which is a collective term that included all applicable individual HKFRSs, HKASs and Interpretations issued by the HKICPA, except for the non-consolidation of certain subsidiaries of the Group as explained below, and accounting principles generally accepted in Hong Kong. In addition, the unaudited condensed consolidated financial statements include applicable disclosures required by the GEM Listing Rules and by the Hong Kong Companies Ordinance.

The measurement basis used in the preparation of the unaudited condensed consolidated financial statements is the historical cost convention, as modified for the revaluation of certain financial instruments which are stated in their fair values.

The preparation of unaudited condensed financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

The accounting policies and basis of preparation adopted in the preparation of the unaudited condensed consolidated financial statements are consistent with those adopted in the annual financial statements for the year ended 30 June 2012.

All significant intercompany transactions, balances and unrealised gain in transaction within the Group have been eliminated on consolidation.

Going concern basis

The unaudited condensed consolidated financial statements have been prepared on a going concern basis notwithstanding that the Group incurred a loss attributable to the owners of the Company of approximately HK\$19,374,000 for the nine months ended 31 March 2013, which indicates the existence of a material uncertainty and may cast significant doubt about the Group's ability to continue as a going concern.

The Directors have given careful considerations to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

The unaudited condensed consolidated financial statements have been prepared on a going concern basis. The validity of the going concern assumption on which the unaudited condensed consolidated financial statements are prepared is dependent on the favourable outcomes of (i) the repayment of the amount due from Mr. Shum Yeung of approximately HK\$34,627,500 of which the details were set out in the Company's announcement dated 3 May 2013; (ii) the extension of repayment of a loan facility of approximately HK\$36,700,000 granted by a company owned by an executive Director of which details were set out in the Company's announcement dated 30 April 2013; (iii) the completion of the conditional subscription agreement in respect of the issue of convertible bonds in the principal amount of HK\$40,000,000 of which details were set out in the Company's announcement dated 21 March 2013; and (iv) the completion of the conditional unsecured loan agreement in the principal amount of HK\$40,000,000 of which details are set out in the Company's announcement dated 21 March 2013 (the "Proposed Plans").

The completion of the subscription agreement in respect of the issue of convertible bonds in the principal amount of HK\$40,000,000 (“Subscription Agreement”) is conditional upon:

- (a) the passing of the necessary resolution(s) by the independent shareholders who are allowed to vote under the GEM Listing Rules, The Hong Kong Code on Takeovers and Mergers (“Takeovers Code”) and/or other applicable laws and regulations approving separately at the extraordinary general meeting (i) the Subscription Agreement and the transaction contemplated thereunder (including but not limited to the issue of the convertible bonds and allotment and issue of the conversion shares); and (ii) the grant of the waiver to be granted by the Securities and Futures Commission of Hong Kong (“SFC”);
- (b) the listing committee of Growth Enterprise Market of The Stock Exchange of Hong Kong Limited having granted the listing of and permission to deal in, the conversion shares;
- (c) the warranties under the Subscription Agreement remaining true and correct in all material respects;
- (d) all necessary consents and approvals (including but not limited to approval from the board of Directors and the relevant regulatory approval pursuant to the GEM Listing Rules and the Takeovers Code) as may be required to be obtained by the Company in respect of the Subscription Agreement and the transactions contemplated thereby having been obtained;
- (e) the publication of an announcement of the subscriber holding in relation to the Subscription Agreement and the transactions contemplated thereunder in compliance with Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”);
- (f) the granting of the waiver by the SFC; and
- (g) the capital reorganisation having become effective.

The completion of the conditional unsecured loan agreement in the principal amount of HK\$40,000,000 (“Loan Agreement”) is conditional upon fulfillment of the following conditions:

- (a) completion of the Subscription Agreement;
- (b) the publication of an announcement of the subscriber holding in relation to the Subscription Agreement and the Loan Agreement and the transactions contemplated respectively thereunder in compliance with Chapter 14 of the Listing Rules; and
- (c) the passing of the necessary resolution by the independent shareholders who are allowed to vote under the GEM Listing Rules, the Takeovers Code and/or other applicable laws and regulations approving at the extraordinary general meeting the Loan Agreement and the transaction contemplated thereunder.

The unaudited condensed 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, if the Proposed Plans completed successfully, the Group would be able to generate sufficient funds to meet its future working capital requirements and financial obligations when they fall due. Accordingly, the Directors consider that it is appropriate to prepare these unaudited condensed consolidated financial statements on a going concern basis.

The applicability of the going concern basis depends on the outcomes 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. The unaudited condensed consolidated financial statements do not include any adjustments for possible failure of the Proposed Plans and the continuance of the Group as a going concern. Should the Group be unable to continue as a going concern, adjustments would have to be made to the unaudited condensed consolidated 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. The effects of these adjustments have not been reflected in the unaudited condensed consolidated financial statements.

Investments in unconsolidated subsidiaries

The unaudited condensed consolidated financial statements for the nine months ended 31 March 2013 were prepared based on the books and records maintained by the Company and its subsidiaries. However, the directors and management of certain subsidiaries of the Company, namely, Blu Spa (Hong Kong) Limited (“BSHK”) and its subsidiaries (the “BSHK Group”), Clapton Holdings Limited, Blu Spa International Limited and Blu Spa Management Services Limited (collectively referred to as the “Unconsolidated Subsidiaries”), have not provided complete documentary information and reasonable explanation in respect of the transactions asserted to have been undertaken. The Directors have not been able to obtain complete documentary information to satisfy themselves regarding the accounting treatments in respect of those transactions for the nine months ended 31 March 2012 and for the year ended 30 June 2012.

On 19 February 2013, the Board announced that the sole director of BSHK proposed to voluntarily wind-up BSHK and appointed Messrs. Osman Mohammed Arab and Wong Kwok Keung as joint and several provisional liquidators. Upon the appointment of the liquidators, the assets of BSHK will be realised, where possible and appropriate. The estimated loss to the Group arising from the winding-up of BSHK will be approximately HK\$1.2 million. Details of which were set out in the Company’s announcement dated 19 February 2013.

Furthermore, as set out in the Company’s announcement dated 9 April 2013, a firm of independent forensic accountants was engaged to investigate and comment on the reasons of the resignation of the former auditors of the Group and the basis for disclaimer of opinion in respect of the Group’s consolidated financial statements for the year ended 30 June 2011 (the “Forensic Investigation”). Based on the result of the Forensic Investigation, the Directors concluded that, among other things, there were possible irregularities in respect of a considerable number of past transactions and possible misstatements of certain transactions and balances recorded in the books and records which mainly concern the Group’s operation involving BSHK Group.

Given these circumstances, the Directors have not consolidated the financial statements of the Unconsolidated Subsidiaries in the unaudited condensed consolidated financial statements for the nine months ended 31 March 2013. As such, the results, assets and liabilities of the Unconsolidated Subsidiaries have not been included into the consolidated financial statements of the Group since 1 July 2011. The resulting gain on de-consolidation, which is determined based on the net asset value of the Unconsolidated Subsidiaries at 1 July 2011 of approximately HK\$155,547,000, have been recognised in the audited consolidated financial statements for the year ended 30 June 2012. Moreover, as at 31 March 2013 and 30 June 2012, the amounts due from the Unconsolidated Subsidiaries to the Group of approximately HK\$241,835,000 and HK\$288,303,000 respectively, among which approximately HK\$90,000 and HK\$240,593,000 respectively was considered not recoverable and impairment losses had been recognised in the unaudited condensed consolidated statement of profit or loss and other comprehensive income for the nine months ended 31 March 2013 and audited consolidated financial statements for the year ended 30 June 2012 respectively.

In the opinion of the Directors, the unaudited condensed consolidated financial statements for the nine months ended 31 March 2013 and the audited consolidated financial statements for the year ended 30 June 2012 are prepared on the aforementioned basis present more fairly the results and state of affairs of the Group as a whole in light of the aforesaid incomplete books and records of the Unconsolidated Subsidiaries and the result of the Forensic Investigation. However, the de-consolidation of the Unconsolidated Subsidiaries from the beginning of the year 1 July 2011 were not in compliance with the requirements of Hong Kong Accounting Standard 27 (Revised) “Consolidated and Separate Financial Statements”.

4. TURNOVER

	For the three months ended		For the nine months ended	
	31 March		31 March	
	2013	2012	2013	2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK'000	HK\$'000	HK'000	HK\$'000
Sales of beauty equipment	—	—	1,140	—
Sales of beauty products	595	—	2,331	—
Therapy services	417	—	1,935	—
	<u>1,012</u>	<u>—</u>	<u>5,406</u>	<u>—</u>

5. FINANCE COSTS

	For the three months ended		For the nine months ended	
	31 March		31 March	
	2013	2012	2013	2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK'000	HK\$'000	HK'000	HK\$'000
Interest expenses on other borrowing	973	99	2,505	99
Interest expenses on finance lease	8	—	21	—
	<u>981</u>	<u>99</u>	<u>2,526</u>	<u>99</u>

6. LOSS FOR THE PERIOD

	For the three months ended		For the nine months ended	
	31 March		31 March	
	2013	2012	2013	2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK'000	HK\$'000	HK'000	HK\$'000
Loss for the period before tax arrived				
at after (charging) crediting				
Staff costs including directors' remunerations	(2,818)	466	(8,785)	(941)
Depreciation of property, plant and equipment	(422)	(10)	(1,054)	(10)
Impairment loss recognised in respect of intangible assets	—	—	—	(7,488)
Impairment loss recognised in respect of deposits, prepayments and other receivables	—	(8,647)	(90)	(238,092)
Gain on de-consolidation of subsidiaries	—	—	—	155,547
Provision of inventories	—	—	(19)	—
	<u>(2,818)</u>	<u>(8,191)</u>	<u>(9,834)</u>	<u>(803,974)</u>

7. INCOME TAX EXPENSE

- (i) No provision for Hong Kong Profits Tax has been made as the Group has no assessable profits in Hong Kong or the estimated assessable profit was wholly absorbed by tax losses brought forward for the nine months ended 31 March 2013 (2012: Nil).
- (ii) No provision for overseas income tax was made as the Company's overseas subsidiaries did not have taxable income for the nine months ended 31 March 2013 (2012: Nil).
- (iii) The Group had no significant unprovided deferred tax assets and liabilities at 31 March 2013 (2012: Nil).

8. DIVIDEND

The Directors did not recommend payment of any dividend for the nine months ended 31 March 2013 (2012: Nil).

9. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss attributable to owners of the Company for the three months ended 31 March 2013 of approximately HK\$5,816,000 (2012: loss attributable to owners of the Company of approximately HK\$9,294,000) and loss attributable to owners of the Company for the nine months ended 31 March 2013 of approximately HK\$19,374,000 (2012: loss attributable to owners of the Company of approximately HK\$92,695,000), and the weighted average of 1,312,200,000 shares in issue during the three months ended 31 March 2013 (2012: 1,312,200,000 shares) and the weighted average of 1,312,200,000 shares in issue during the nine months ended 31 March 2013 (2012: 1,298,200,000 shares).

Diluted loss per share for the three months and nine months ended 31 March 2013 and 2012 were the same as the basic loss per share as there were no diluting event during the periods.

10. RESERVES

	Share premium (Unaudited) HK\$'000	Merger reserve (Unaudited) HK\$'000	Translation reserve (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 July 2011	170,269	22,734	(4)	(203,449)	(10,450)
Loss for the period	—	—	—	(92,695)	(92,695)
Other comprehensive income for the period:					
Release of translation reserve upon de-consolidation of subsidiaries	—	—	4	—	4
Total comprehensive expenses for the period	—	—	4	(92,695)	(92,691)
Issue of shares pursuant to the subscription agreements dated 27 July 2011	5,500	—	—	—	5,500
Transaction costs attributable to issue of new shares	(412)	—	—	—	(412)
At 31 March 2012	<u>175,357</u>	<u>22,734</u>	<u>—</u>	<u>(296,144)</u>	<u>(98,053)</u>
At 1 July 2012	<u>175,357</u>	<u>22,734</u>	<u>—</u>	<u>(303,838)</u>	<u>(105,747)</u>
Loss for the period	—	—	—	(19,374)	(19,374)
Total comprehensive expense for the period	—	—	—	(19,374)	(19,374)
At 31 March 2013	<u>175,357</u>	<u>22,734</u>	<u>—</u>	<u>(323,212)</u>	<u>(125,121)</u>

11. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed in elsewhere to the unaudited condensed consolidated financial statements, the Group had the following material transactions with related parties during the period:

Name of party	Nature of transactions	For the nine months ended	
		31 March	
		2013	2012
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000

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

Koffman Investment Limited (“Koffman”) <i>(Note 1)</i>	Loan	19,205	10,000
	Settlement of Loan interest	2,511	99
BSHK <i>(Note 2)</i>	Sales of beauty equipment	603	—

The following balance was outstanding at the end of the reporting period:

Koffman <i>(Note 1)</i>	Loan	<u>36,700</u>	<u>10,000</u>
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Notes:

- Mr. Yu Shu Kuen, an executive Director, managing Director and the Chairman, is the ultimate beneficial owner of Koffman.
- BSHK was de-consolidated on 1 July 2011.

Compensation for key management personnel

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

	For the nine months ended	
	31 March	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Short-term employee benefits	984	873
Post employment benefits	11	—
	<u>995</u>	<u>873</u>

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

12. EVENTS AFTER REPORTING PERIOD

Saved as disclosed elsewhere in the unaudited condensed consolidated financial statements, the Group had the following material transactions after the end of the reporting period:

- (a) On 2 April 2013 and 30 April 2013, the Company has entered into two supplementary loan agreements with Koffman to extend the repayment date of the above loan from 31 March 2013 to 31 May 2013. Details of the agreement were set out in the Company's announcements dated 26 June 2012, 26 September 2012, 26 October 2012, 26 November 2012, 7 December 2012, 31 December 2012, 15 January 2013, 31 January 2013, 28 February 2013, 2 April 2013 and 30 April 2013.
- (b) On 9 April 2013, the Company announced that the forensic report was issued on 28 September 2012 and the Company has submitted a copy of such report to the Stock Exchange on the even date. As the findings indicate that a considerable number of past transactions of the group may be fictitious, the Company has reported the matter to the Commercial Crime Bureau of the Hong Kong Police Force. Details of the announcement was set out in the Company's announcement on 28 September 2012 and 9 April 2013.
- (c) On 24 April 2013, the Company announced that the Certificate of Incorporation on Change of Name was issued by the Registrar of Companies in the Cayman Islands on 8 March 2013, certifying the change of the English name of the Company from "China AU Group Holdings Limited" to "EDS Wellness Holdings Limited". The Chinese name of the Company being "中國金豐集團控股有限公司" (which was adopted for identification purpose) will no longer be adopted. Furthermore, the Certificate of Registration of Change of Corporate Name of Non-Hong Kong Company was issued by the Registrar of Companies in Hong Kong on 18 April 2013 certifying the new name of the Company has been registered in Hong Kong under Part XI of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). Following the Change of Company name becoming effective, with effect from 29 April 2013, the shares of the Company will be traded on the Stock Exchange under the new stock short name "EDS WELLNESS" in English and the Chinese stock short name of "中國金豐集團" will no longer be adopted. Details of the announcement was set out in the Company's announcement on 24 April 2013.
- (d) On 25 April 2013, the Company announced that the Company agreed to accept Mr. Shum Yeung's repayment proposal for the settlement of the outstanding amount of HK\$34,627,500.00 due to the Company from Mr. Shum Yeung. Details of the announcement was set out in the Company's announcement on 25 April 2013.
- (e) On 3 May 2013, the Company announced that the Company received contractual interest of HK\$853,828.77 for the period from 1 to 30 April 2013 and the agreed legal costs of HK\$20,000.00 from Mr. Shum Yeung. Upon further negotiations, the Company and Mr. Shum Yeung have principally agreed to a new repayment proposal for the outstanding balance of HK\$34,627,500.00 and the interest accrued thereon due to the Company from Mr. Shum Yeung. Details of the announcement was set out in the Company's announcement on 3 May 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

At the request of the Company, trading in the shares of the Company has been suspended since 30 September 2011 due to the delay in publication of the Group's final results announcement for the year ended 30 June 2011.

In view of the insufficient of general working capital, the Company had entered into two short-term loan agreements in normal commercial terms with Koffman Investment Limited ("Koffman"), of which Mr. Yu Shu Kuen, the chairman, executive Director and managing Director, is the ultimate beneficial owner, in the principal of HK\$10.0 million and HK\$20.0 million on 8 February 2012 (the "First Loan Agreement") and 27 March 2012 (the "Second Loan Agreement") respectively. All the outstanding borrowings and interest expenses accrued for the First Loan Agreement had been repaid on 7 May 2012. The loan facility of the Second Loan Agreement was increased to a principal amount of HK\$50.0 million in accordance with the supplementary loan agreement dated 26 June 2012. The repayment date of all the outstanding borrowings for the Second Loan Agreement had been extended from 27 June 2012 to 31 May 2013, by entering of eleven supplementary loan agreements dated 26 June 2012, 26 September 2012, 26 October 2012, 26 November 2012, 7 December 2012, 31 December 2012, 15 January 2013, 31 January 2013, 28 February 2013, 2 April 2013 and 30 April 2013 respectively.

On 7 March 2012, the Company announced that the former auditors of the Group, HLM & Co. ("HLM"), tendered their resignation as the external auditors of the Group on 7 March 2012. In view of the reasons for resignation as set out in the resignation letter issued by HLM to the Board, the Board resolved to establish a special investigation committee (the "Special Investigation Committee") on 7 March 2012, comprising Mr. Yu Shu Kuen, an executive Director, Mr. Tam B Ray Billy and Mr. Chu Kin Wang Peleus, both are independent non-executive Directors, for the purpose of, (i) investigating the issues raised by HLM in their resignation letter; (ii) reviewing the internal control procedures and corporate governance policies of the Group; and (iii) making recommendations to the Board on appropriate actions to be taken.

On 8 June 2012, the Company approved the annual results announcement for the year ended 30 June 2011, in which a disclaimer of opinion was issued by the independent auditors of the Group in the independent auditors' report.

On 13 July 2012, the Stock Exchange issued a letter to the Company setting out the following conditions which must be satisfied by the Company before the Stock Exchange considers any application for trading resumption:

- (a) engage an independent professional adviser acceptable to the Stock Exchange to conduct a forensic investigation to address all the issues raised in the former auditors' resignation letter and the audit qualifications made by the current auditors in its independent auditors' report for the year ended 30 June 2011;
- (b) inform the market of all material information (including the findings of the forensic investigation of (a) above) that is necessary to appraise the Group's position;
- (c) publish all outstanding financial results and reports, and address any other concerns raised by the current auditors; and

(d) demonstrate that the Group has adequate financial reporting procedures and internal control systems to meet the obligations under the GEM Listing Rules.

The Company should also comply with the GEM Listing Rules and all applicable laws and regulations before resumption.

The Stock Exchange may modify any of the above conditions and/or impose further conditions if the situation changes.

On 16 July 2012, the Company appointed RSM Nelson Wheeler Corporate Advisory Limited (“RSM”) as the independent forensic accountants to address the conditions set out by the Stock Exchange. On 28 September 2012, a forensic investigation report (the “Forensic Investigation Report”) was issued by RSM and the Company has submitted a copy of such report to the Stock Exchange on the even date. On 10 October 2012, a copy of the Forensic Investigation Report was submitted to the Board by the Special Investigation Committee. A summary of the major findings of the Forensic Investigation Report was set out in an announcement dated 9 April 2013. Having considered the findings of the Forensic Investigation Report and complete documentary information and reasonable explanation in respect of the transactions asserted to have been undertaken by certain subsidiaries could not be obtained, the Directors have not been able to satisfy themselves regarding the accounting treatments in respect of those transactions for the year ended 30 June 2012. As such, the results, assets and liabilities of these subsidiaries (the “Unconsolidated Subsidiaries”) have not been included in the consolidated financial statements for the year ended 30 June 2012 (the “De-consolidation”). Similarly, the Unconsolidated Subsidiaries have not been included in the unaudited condensed consolidated financial statements for the nine months ended 31 March 2013.

On 13 July 2012, EDS Distribution Limited (“EDS Distribution”), a wholly-owned subsidiary of the Company, had entered into an exclusive distribution agreement (the “Exclusive Distribution Agreement”) with Montaigne Limited (“Montaigne”). Pursuant to the Exclusive Distribution Agreement, Montaigne had granted exclusive distributorship of “Evidens de Beauté” products in Hong Kong to EDS Distribution for an initial term of 3 years which shall be renewed automatically thereafter for a period of 1 year unless terminated by either party.

On 5 October 2012, the Group opened a spa of around 2,231 sq. ft. with the brand “Le Spa Evidens” in Causeway Bay, Hong Kong in order to promote and publicise “Evidens de Beauté” products and generate further income for the Group.

As disclosed in the Company’s circular dated 24 January 2013 (the “Circular”), the Board proposed to put forward to the shareholders of the Company the following proposals for approval at the forthcoming extraordinary general meeting to be held on 28 February 2013 (the “EGM”):

(i) Creation of contributed surplus account and cancellation of share premium account

The Directors proposed to create a contributed surplus account of the Company and the share premium account of the Company will be cancelled. The credits arising from the cancellation of the share premium account will be transferred to the newly created contributed surplus account of the Company within the meaning of the Companies Act 1981 of the Bermuda effective upon the change of domicile. Details of such proposal were disclosed in the Circular. The proposal was approved at the EGM. As at the date of this report, the creation of contributed surplus account and cancellation of share premium account has not yet been completed.

(ii) Change of domicile

The Directors proposed to change the domicile of the Company from the Cayman Islands to Bermuda by way of de-registration in the Cayman Islands and continuation as an exempted company under the laws of Bermuda and to adopt a new memorandum of continuance and Bye-laws in compliance with Bermuda laws to replace the existing memorandum and articles of association of the Company (the “Change of Domicile”). Details of the change of domicile and adoption of new memorandum and of continuance and Bye-laws were set out in the Circular. Such proposal was approved at the EGM. As at the date of this report, the Change of Domicile has not yet been completed.

(iii) Capital reorganisation

After the change of domicile, the Directors proposed to reorganise the capital of the Company, which involves the capital reduction and the capital consolidation (the “Capital Reorganisation”). Details of the capital reorganisation were set out in the Circular. The capital reorganisation was approved at the EGM. As at the date of this report, the capital reorganisation has not yet been completed.

(iv) Change of company name

The Board proposed to change the name of the Company from “China AU Group Holdings Limited” to “EDS Wellness Holdings Limited” and the existing Chinese name of the Company being “中國金豐集團控股有限公司” (which was adopted for identification purpose) will no longer be adopted, subject to the conditions as set out in the Circular being fulfilled. Details of such change were set out in the Circular. The change of company name was approved at the EGM.

On 24 April 2013, the Company announced that the Certificate of Incorporation on Change of Name was issued by the Registrar of Companies in the Cayman Islands on 8 March 2013, certifying the change of the English name of the Company from “China AU Group Holdings Limited” to “EDS Wellness Holdings Limited”. The Chinese name of the Company being “中國金豐集團控股有限公司” (which was adopted for identification purpose) will no longer be adopted. Furthermore, the Certificate of Registration of Change of Corporate Name of Non-Hong Kong Company was issued by the Registrar of Companies in Hong Kong on 18 April 2013 certifying the new name of the Company has been registered in Hong Kong under Part XI of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). Following the Change of Company name becoming effective, with effect from 29 April 2013, the shares of the Company will be traded on the Stock Exchange under the new stock short name “EDS WELLNESS” in English and the Chinese stock short name of “中國金豐集團” will no longer be adopted.

As disclosed in the Company’s announcement dated 19 February 2013, the sole director of BSHK decided to voluntarily wind-up BSHK. The Directors are of the view that the winding-up of BSHK will not have any material adverse financial effect on the Group. The resolution for the voluntary winding-up of BSHK was subsequently passed by its sole shareholder on 26 February 2013. In addition, Mr. Osman Mohammed Arab and Mr. Wong Kwok Keung of RSM Nelson Wheeler Corporate Advisory Limited were appointed as joint and several liquidators for the purpose of the winding-up of BSHK in the creditors’ meeting held on 26 February 2013. As at the date of this report, the voluntary winding-up of BSHK is in progress.

As disclosed in the Company's announcement dated 21 March 2013 (the "Announcement"), the Company entered into the following transactions:

(i) Issue of convertible bonds

The Company and New Cove Limited (the "Subscriber"), an indirect wholly-owned subsidiary of Eternity Investment Limited (the "Subscriber Holding") of which its issue shares are listed on the Main Board of the Stock Exchange (Stock Code: 764), entered into a subscription agreement (the "Subscription Agreement") in respect of the issue of convertible bonds in the principle amount of HK\$40 million. Details of such transactions were disclosed in the Announcement. The issue of the convertible bonds and the conversion shares to be allotted and issued upon exercise of the conversion rights attaching to the convertible bonds will be subject to a specific mandate to be approved by the independent shareholders at the forthcoming extraordinary general meeting by way of poll.

(ii) Application for Whitewash Waiver by the Subscriber

Assuming the Capital Reorganisation takes effect, the Subscriber will be interested in approximately 75.30% of the issued share capital of the Company as enlarged by the allotment and issue of all the conversion shares, immediately upon the full exercise of the conversion rights attaching to the convertible bonds. Under Rule 26.1 of the Takeovers Code, the Subscriber and the parties acting in concert with it are required to make a mandatory general offer to the shareholders for all the issued shares unless the Whitewash Waiver is obtained. In this regard, the Subscriber will make an application to the Executive for the Whitewash Waiver in respect of the subscription and the exercise of the conversion rights attaching to the convertible bonds subject to approval by the independent shareholders in respect of the subscription and Whitewash Waiver at the forthcoming extraordinary general meeting by way of poll.

(iii) Loan agreement

The Company and Hong Kong Builders Finance Limited (the "Lender"), an indirect wholly-owned subsidiary of the Subscriber Holding, entered into a loan agreement (the "Loan Agreement"), pursuant to which, the Lender has conditionally agreed to grant an unsecured loan in the principal amount of HK\$40 million to the Company for a term of 3 years from the date of drawdown. Details of the Loan Agreement were disclosed in the Announcement. The Loan Agreement will be conditional upon the completion of the Subscription Agreement. As such, the Loan Agreement will be subject to the independent shareholders' approval at the forthcoming extraordinary general meeting by way of poll.

A circular containing, among other matters, further information on the Subscription Agreement and the transactions contemplated thereunder; the Whitewash Waiver; and the Loan Agreement and the transactions contemplated thereunder together with the recommendation of the independent board committee to the independent shareholders, a letter advice from the independent financial adviser to the independent board committee and the independent shareholders in relation to these transactions and a notice of extraordinary general meeting will be despatched to the shareholders in compliance with Rule 8.2 of the Takeovers Code. As at the date of this report, the circular has not yet been despatched.

On 27 March 2013, the Company has made a submission to the Stock Exchange with a view to seek the Stock Exchange's approval for the resumption of trading in the shares of the Company, taking into consideration of a number of actions taken by the Company, which include, among others (i) engagement of RSM to conduct forensic investigation as mentioned above; (ii) publication of the

findings of the Forensic Investigation Report; (iii) the special investigation committee was of the view that no current Directors (including Mr. Wang Xiaofei and Mr. Wang Shangzhong) were involved in the possible fictitious transactions and irregularities as set out in the Forensic Investigation Report; (iv) voluntary winding-up of BSHK due to its incomplete books and records; (v) the timeline to publish all outstanding financial results and reports of the Company; (vi) engagement of independent financial advisor to conduct internal control review; (vii) the fund raising plan in relation to the entering into the Subscription Agreement and the Loan Agreement; (viii) the Directors' opinion on the working capital sufficiency of the Group, and (ix) the Directors' opinion on the sufficient level of operations of the Group under Rule 17.26 of the GEM Listing Rules.

On 9 April 2013, the Company received a letter from the Stock Exchange in which the Stock Exchange stated that in considering the Company's resumption, the Stock Exchange had reviewed information recently disclosed or provided by the Company on the Company's latest operation and financial position. The information gave rise to its concerns whether the Company is able to satisfy its continued listing obligations under Rule 17.26 of the GEM Listing Rules to maintain a sufficient level of operations or assets, in particular, (i) the small scale and limited track record of the Company's existing "Evidens de Beauté" distribution business and the "Le Spa Evidens" spa in Causeway Bay; and (ii) the minimal amount of turnover for the year ended 30 June 2012 and the gross loss and net loss position as shown in the financial information for the year ended 30 June 2012 and for the six months ended 31 December 2012.

The Stock Exchange expressed in the letter that there are concerned whether the Company's current business is viable and has a scale or substance which is able to justify its continued listing and it invited the Company to provide a submission on or before 8 May 2013 to demonstrate that the Company's business is viable and sustainable. On 3 May 2013, the Company has made a submission to the Stock Exchange requesting for a three months extension. On 14 May 2013, the Stock Exchange issued a letter to the Company in which the Stock Exchange agreed to grant such extension (the "Extension Letter"). Pursuant to the Extension Letter, the Company is required to provide a submission by 8 August 2013 to demonstrate that the Company has a viable and sustainable business, failing which the Stock Exchange would proceed to cancel the Company's listing under the delisting procedures set out in Rule 9.15 of the GEM Listing Rules.

During the period under review, the management continued to streamline its operations. Up to the date of this report, the Group terminated the operations of 3 spa centres located at Central, Cheung Sha Wan and Sheung Wan and a hair rejuvenating centre located at Central that bring to a total of 9 retail shops or spa centres since February 2012.

Financial Review

Due to De-consolidation, the financial statements of the Unconsolidated Subsidiaries have not been included in the unaudited condensed consolidated financial statements of the Group for the nine months ended 31 March 2013.

During the period under review, the Group recorded a turnover of approximately HK\$5.4 million of which approximately HK\$2.4 million, approximately HK\$1.1 million and approximately HK\$1.9 million were generated from the sales of beauty products, sales of beauty equipment and provision of therapy services respectively. The gross loss of approximately HK\$3.7 million was mainly attributed to the direct costs of salaries and rental expenses incurred in the preliminary development stage of the new business and the extra sales discounts offered for the sales of beauty products under the brand name "Blu Spa".

The selling and distribution costs of approximately HK\$1.0 million was mainly attributed to the subscription fee for advertising with magazines and expenses for the grand opening of Le Spa Evidens.

The other revenue of approximately HK\$ 1.7 million was mainly contributed by the interest income for the outstanding amount due from Mr. Shum Yeung to the Company in accordance with the Second Deed of Settlement entered into between the Company and Mr. Shum Yeung dated 29 January 2013.

The administrative expenses of approximately HK\$13.7 million mainly comprised salaries and directors' remuneration of approximately HK\$5.8 million; legal and professional fees of approximately HK\$2.6 million; rent and rates of approximately HK\$1.0 million; overseas travelling expenses of approximately HK\$0.5 million and depreciation of approximately HK\$0.9 million.

The finance costs of approximately HK\$2.5 million was mainly attributed to the loan interest expenses paid to Koffman during the period under review.

The consolidated loss attributable to owners of the Company amounted to approximately HK\$19.4 million (2012: HK\$92.7 million) for the nine months ended 31 March 2012. The improvement of the results was mainly contributed by the non-recurrence of once off impairment loss recognised in respect of deposits, prepayments and other receivables recorded in the corresponding period last year.

Future Plans

The Group is exploring new business opportunities and furthering its business development. As announced by the Company on 26 October 2012, the Group intends to expand the distribution business for “Evidens de Beauté” products to mainland China and Taiwan. The Group is planning to establish a subsidiary in each of mainland China and Taiwan for the purposes of registering and distributing “Evidens de Beauté” products in these territories. The incorporation of a subsidiary in Xian, mainland China is expected to be completed in May 2013. The management expects that full registration of all the “Evidens de Beauté” products will be completed by end of March 2014. In addition, the Group has the intention to expand the distribution business for “Evidens de Beauté” products to Macau. Such expansion plan is under negotiations with the brand owner of “Evidens de Beauté” products.

Furthermore, the Group is actively expanding the distribution channels of “Evidens de Beauté” products and publicising this brand in Hong Kong, including:

- (i) the Group is supplying “Evidens de Beauté” products to one of the biggest worldwide on line retail shop selling well known skin care & cosmetics brand;
- (ii) the Group is discussing with a flight company to arrange for an inflight staff sales event;
- (iii) the Group is liaising with a couple of renown hotel groups in relation to the supply of the “Evidens de Beauté” products and “Le Spa Evidens” treatments to the guests of their hotels in Hong Kong;
- (iv) the Group has completed the renovation of the store at World Trade Centre to transform it into a “Evidens de Beauté” point of sale which is opened on 30 April 2013;
- (v) the Group organised a 2 days in house event on 19 March 2013 and 20 March 2013 inviting 40 guests to come along to introduce the brand “Evidens de Beauté” as well as the type of services and treatments provided at the spa. The Group is aiming to throw out similar event per quarter to bring the brand awareness;

- (vi) the Group is planning to organize a 1 day press event on 20th May 2013 inviting 40 beauty editors and 30 special guests to meet with Mr. Charles-Edouard Barthes, the founder of the “Evidens de Beauté” group, as one of the promotion activities to bring the brand awareness and enhance the product image;
- (vii) the Group will cooperate with Occasions PR & Marketing Limited (“Occasions”) for “Evidens de Beauté” to be the only title skincare sponsor for the 25th anniversary celebration event of Occasions hosted by Ms. Pansy Ho and Ms. Yvette Yuen together with the Hong Kong Cancer fund to attract press or media coverage and promote the awareness of the brand “Evidens de Beauté”;
- (viii) the Group intends to open an image flagship store in one of the prestigious and high traffic shopping mall in Hong Kong before the end of the first quarter of 2014; and
- (ix) the management is considering the reposition and repackaging of the products under the brand name “Blu Spa” to create a balanced product mix in order to penetrate into different market segments and enlarge the customer base.

In addition, the Company is considering an opportunity to acquire a beauty and medical products distribution company in Hong Kong in order to diversify the Group’s revenue base.

As a conclusion, the management has spent enormous resources to address the conditions as set out in the letter issued by the Stock Exchange on 13 July 2012, including the engagement of independent professional to conduct forensic investigation and review of the Group’s internal control system and the preparation of all outstanding financial results and reports. In the coming quarters, the management shall allocate more resources for the Group’s business expansion. In the long run, the Board will strive to resume trading in the shares of the Company on the Stock Exchange.

LITIGATION

On 25 September 2012, a writ of summons (the “Writ”) was issued in the High Court of Hong Kong by Blu Spa (Hong Kong) Limited (“BSHK”), a wholly owned subsidiary of the Company, as the plaintiff (the “Plaintiff”) on 25 September 2012 claiming against Mr. Shum Yeung as the defendant (the “Defendant”) for, inter alia, (i) the repayment of an outstanding sum due and owing from the Defendant under a deed of termination dated 4 April 2012 (the “Deed of Termination”) and four repayment extension agreements dated 4 July 2012, 24 July 2012, 3 August 2012 and 21 August 2012 respectively (collectively, the “Repayment Extension Agreements”) entered into between the Plaintiff and the Defendant; and (ii) the breach of the Deed of Termination and/or the Repayment Extension Agreements.

The Plaintiff claims (the “Claims”) against the Defendant for the following relief:

- (a) the outstanding sum of HK\$45,000,000.00 (the “Outstanding Sum”);
- (b) the contractual interest accrued and due on the Outstanding Sum;
- (c) the interest; and
- (d) the costs.

On 26 October 2012, the Company announced that Plaintiff was in the process of applying for summary judgement against the Defendant. The hearing has been fixed for 30 January 2013.

On 1 November 2012, the Plaintiff and the Defendant entered into a deed of settlement (the “Deed of Settlement”) for the purpose of settling the Claims under the Writ. Pursuant to the Deed of Settlement, in consideration of the Plaintiff and the Defendant agreeing to settle the Claims as follows:

- (i) the Defendant shall pay the following amounts by way of cashier’s order or solicitors’ cheque to the Plaintiff on the following specified dates:
 - (a) HK\$4,050,000.00 payable to the Plaintiff on 13 November 2012;
 - (b) HK\$1,597,808.20 payable to the Plaintiff on 13 November 2012; and
 - (c) HK\$36,450,000.00 payable to the Plaintiff on 30 November 2012;
- (ii) upon payment of the entirety of the sums by the Defendant on the specified dates as set out above, the Plaintiff shall by way of court order withdraw the legal proceedings and the summary judgement application under the Writ and the statutory demand against the Defendant with no order as to costs.

On 21 December 2012, the Company announced that the Plaintiff received an aggregate sum of HK\$5,647,808.20 from the Defendant. In addition, the Plaintiff agreed to further extend the repayment date of HK\$36,450,000 and the Defendant shall pay the following amounts by way of cashier’s order or solicitors’ cheque to the Plaintiff on the following specified dates:

- (a) HK\$838,849.32, being the accrued interest from 1 December 2012 to 28 December 2012 (both day inclusive), shall be payable to the Plaintiff on 28 December 2012;
- (b) HK\$90,000.00, being the legal costs in relation to the Deed of Settlement, shall be payable to the Plaintiff on 28 December 2012; and
- (c) RMB29,571,885.00, equivalent to approximately HK\$36,450,000.00 (at the exchange rate of 0.8113 as quoted from The People’s Bank of China as at 20 December 2012), being the outstanding principal, shall be payable to the receiving agent appointed by the Plaintiff, namely Mr. Yu, in the mainland China on 28 December 2012.

On 2 January 2013, the Plaintiff received a sum of HK\$928,726.00, being the accrued interest from 1 December 2012 to 31 December 2012.

On 7 January 2013, the Plaintiff agreed to accept the proposal from the Defendant to further extend the repayment date of HK\$36,450,000.00 and the Defendant shall pay the following amounts by way of cashier’s order or solicitors’ cheque to the Plaintiff on the following specified dates:

- (a) HK\$479,342.47, being the accrued interest from 1 January 2013 to 16 January 2013, shall be payable to the Plaintiff on 16 January 2013;
- (b) The outstanding principal of HK\$36,450,000.00 in its equivalent amount of Renminbi shall be paid to the receiving agent appointed by the Plaintiff, namely Mr. Yu, in the mainland China on 29 January 2013; and
- (c) HK\$120,000.00, being the legal costs in relation to the Deed of Settlement, shall be payable to the Plaintiff on 29 January 2013.

The Plaintiff received a sum of HK\$479,342.47 on 16 January 2013.

On 29 January 2013, the Plaintiff and the Company entered into the deed of assignment (the “Deed of Assignment”) pursuant to which the Plaintiff agreed to assign and transfer to the Company all of its rights, title, interest and obligation in and to the Deed of Termination and Repayment Extension Agreements (the “Debt Documents”), (as well as all the fruits, benefits, rights, advantages, judgement sums and interests of and/or arising from the legal proceedings represented by the Writ, if any) in the consideration of HK\$36,450,000.00 to be paid by the Company to the Plaintiff and the Company agreed to undertake to perform in accordance with the terms of the Debt Documents all remaining obligations and duties of the Plaintiff with immediate effect.

On 29 January 2013, the Plaintiff, the Defendant and the Company entered into the second deed of settlement (the “Second Deed of Settlement”) pursuant to which the Plaintiff shall pay the Company the following amounts by way of cashier’s order or solicitors’ cheque on or before the following specified dates:

- (a) HK\$1,822,500.00, being 5% of the outstanding principal sum of HK\$36,450,000.00 (the “Outstanding Principal Sum”) payable on or before 29 January 2013;
- (b) HK\$389,465.70, being the daily interest accruing for January 2013 (from 17 January 2013 to 29 January 2013) payable on or before 29 January 2013;
- (c) HK\$1,736,118.49, being the additional daily interest accruing on the new principal balance of HK\$34,627,500.00 (the “New Balance”) (for the period from 30 January 2013 to 31 March 2013) payable on or before 29 January 2013;
- (d) HK\$120,000.00, being part contribution to the legal costs of the Plaintiff payable on or before 29 January 2013; and
- (e) HK\$34,627,500.00, being the New Balance payable on or before 31 March 2013.

Upon execution of the Second Deed of Settlement, a consent summons signed by the respective solicitors for the Plaintiff and the Defendant will be filed with the High Court asking for an order to adjourn the Hearing with liberty to restore.

Upon the payment of the entirety the sums on specified dates as set out above, the Plaintiff and/or the Company shall withdraw the legal proceedings against the Defendant.

On 29 January 2013, the Company received an aggregate sum of HK\$4,068,084.19.

On 31 March 2013, the Defendant defaulted to pay the New Balance of HK\$34,627,500.00 as stated in the Second Deed of Settlement.

On 25 April 2013, the Company announced that the Company agreed to accept the Defendant’s repayment proposal on the following terms:

- (i) the Defendant shall pay HK\$34,627,500.00, being the New Balance to the Company on or before 30 April 2013;
- (ii) the Defendant shall pay the additional daily interest to the Company for the period from 1 April 2013 to 26 April 2013 in the total sum of HK\$739,984.93 on or before 4:00 p.m. on 26 April 2013. The Defendant shall further pay the additional daily interest to the Company from 26 April 2013 until actual payment on or before 30 April 2013; and

(iii) the Defendant shall pay the agreed legal costs of HK\$20,000.00 to the Company on or before 30 April 2013.

On 3 May 2013, the Company announced that the Company received contractual interest of HK\$853,828.77 for the period from 1 to 30 April 2013 and the agreed legal costs of HK\$20,000.00 from the Defendant. Upon further negotiations, the Company and the Defendant have principally agreed to a new repayment proposal in which the New Balance of HK\$34,627,500.00 and the interest accrued thereon shall be paid by the Defendant in the following manner:

- (i) the contractual interest of HK\$882,289.73 for the period from 1 to 31 May 2013 payable on or before 4:00 p.m. on 31 May 2013;
- (ii) HK\$22,627,500.00 being partial payment of the New Balance payable on or before 4:00 p.m. on 31 May 2013;
- (iii) the contractual interest of HK\$601,643.84 for the period from 1 June to 31 July 2013 payable on or before 4:00 p.m. on 31 May 2013; and
- (iv) HK\$12,000,000.00 being the remaining balance of the New Balance payable on or before 4:00 p.m. on 31 July 2013.

Furthermore, Dutfield International Group Company Limited (“Dutfield”) has agreed to guarantee, unconditionally and irrevocably, as a principal debtor and not merely as a surety, that it shall be jointly and severally liable to the Company for the Defendant’s debts and liabilities under the legal proceedings. Dutfield undertakes that if and whenever the Defendant shall be in default in any of the above payments when it becomes due and payable, Dutfield shall on demand make immediate payment of any outstanding balance of the Defendant’s debt due to the Company under the legal proceedings.

Dutfield is also a plaintiff in the legal proceedings in respect of, among others, the claim for the sum of HK\$141,360,000.00 under a loan agreement (the “Dutfield Loan Agreement”) and in default of full payment of such sums found due by the court, an order for sale of the property mortgaged (the “Mortgaged Property”) to Dutfield under a second mortgage (the “Second Mortgage”) with the proceeds of sale to be applied to firstly discharge the liabilities under the first mortgage (the “First Mortgage”) and secondly discharge the liabilities under the Dutfield Loan Agreement and the Second Mortgage. The Company, the Defendant and Dutfield have agreed that any proceeds received by Dutfield in such proceedings shall be paid to the Company immediately as the set off of the Defendant’s debt due to the Company under the legal proceedings against the Defendant without being affected by the payment schedule agreed between the Company and the Defendant in any event.

Dutfield is owned as to 50% by Ms. Chan Choi Har, Ivy, a former executive director of the Company and as to 50% by Mr. Law Kin Ming, Alfred, the husband of Ms. Chan Choi Har, Ivy.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 March 2013, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have taken under such provisions of the SFO), or which were recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or otherwise were notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules, were as follows:-

Long positions in the ordinary shares of HK\$0.1 each of the Company

Name of Directors	Nature of interests	Number of shares	Approximate percentage of shareholding (Note 2)
Mr. Wang Xiaofei ("Mr. Wang")	Personal interest	230,400,000	17.56%
Mr. Du Juanhong ("Mr. Du")	Corporate interest	106,580,000 (Note 1)	8.12%

Notes:

1. These shares were held by Hong Kong Wintek International Co., Limited ("Wintek") which was wholly-owned by Mr. Du who was appointed as non-executive Director on 5 March 2012. By virtue of the SFO, Mr. Du is deemed to be interested in the shares held by Wintek.
2. The percentage is calculated on the basis of 1,312,200,000 shares of the Company in issue as at 31 March 2013.

Save as disclosed above, as at 31 March 2013, none of the Directors and the chief executive of the Company nor their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or were required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein, or as otherwise were required to be notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDER'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 March 2013, so far as is known to the Directors and the chief executive of the Company, the interests and short positions of the persons or corporations (other than the Directors and the chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO; or who was directly or indirectly, to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other members of the Group, were as follows:

Long position in ordinary shares of HK\$0.1 each of the Company

Name of shareholder	Nature of interests	Number of shares	Approximate percentage of shareholding (Note)
Wintek	Beneficial owner	106,580,000	8.12%

Note: The percentage is calculated on the basis of 1,312,200,000 shares of the Company in issue as at 31 March 2013.

Save as disclosed above, as at 31 March 2013, so far as is known to the Directors and the chief executive of the Company, and based on the public records filed on the website of the Stock Exchange and records kept by the Company, no other persons or corporation (other than the Directors and chief executive of the Company) has interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, or, were directly or indirectly, interest in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other members of the Group.

OTHER PERSON'S INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

Save as disclosed above, so far as is known to the Directors, there is no other person who has an interest or short position in the shares and underlying shares that is discloseable under Section 336 of the SFO.

COMPETING INTERESTS

As at 31 March 2013, none of the Directors, substantial shareholders of the Company nor any of their respective associates (as defined in the GEM Listing Rules) has any interest in a business which causes or may cause any significant competition with the business of the Group.

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

During the period under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Company has established an audit committee (the “Audit Committee”) with written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules. As at 31 March 2013, the Audit Committee comprises three independent non-executive Directors namely, Mr. Tam B Ray Billy, Mr. Chu Kin Wang Peleus and Mr. Tse Joseph. The Audit Committee has reviewed the unaudited condensed consolidated third quarterly results for the nine months ended 31 March 2013 and has provided comments thereon.

By order of the Board
EDS Wellness Holdings Limited
Yu Shu Kuen
Chairman

Hong Kong, 14 May 2013

As at the date of this report, the Board comprises four executive Directors, namely Mr. Yu Shu Kuen, Mr. Wang Xiaofei (with Mr. Lee Chan Wah as alternate), Mr. Wang Shangzhong and Mr. Lee Chan Wah; one non-executive Director, namely Mr. Du Juanhong; and three independent non-executive Directors, namely Mr. Tam B Ray Billy, Mr. Chu Kin Wang Peleus and Mr. Tse Joseph.