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China AU Group Holdings Limited

中國金豐集團控股有限公司*

*(to be renamed as EDS Wellness Holdings Limited)
(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 8176)

ANNOUNCEMENT

Reference is made to the announcements of China AU Group Holdings Limited (the “**Company**”, which together with its subsidiaries, the “**Group**”) dated 28 September 2012 (the “**Announcement**”) in relation to, among others, the appointment of an independent forensic accountant. Capitalised terms defined in the Announcement shall have the same meanings when used herein unless the context requires otherwise.

As disclosed in the Announcement, the Company had engaged RSM to investigate and comment on the reasons of the resignation of the former auditors of the Group and the basis of disclaimer opinions of the current auditors of the Group in relation to the audit of the Group’s financial statements for the year ended 30 June 2011. 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 and a number of falsified documents, forged signatures and chops were involved in those fictitious transactions, the Company has reported the matter to the Commercial Crime Bureau of the Hong Kong Police Force.

A summary of the major findings of the Forensic Report is set out below.

RELATIONSHIP WITH OR CONTROL OVER THE MAJOR CUSTOMER

The relationship between the Group and a major customer of the Group from 2006/07 to 2010/11 (the “**Major Customer**”) was far closer than the usual supplier-distributor relationship. The Forensic Report reveals that the Major Customer had considerable involvement in the Group’s usual procurement arrangement and the Group could place instructions directly to the staff of the Major Customer. There are a number of indicators that the Major Customer was not an independent third party of the Group and related to some former senior management members of the Group which include:

- (i) RSM found evidence that the Group might have paid the first month of rental and the rental deposit in relation to the office of the Major Customer;

* *For identification purpose only*

- (ii) RSM found the hardcopy and softcopy of the payroll records of the Major Customer in the Group's office;
- (iii) the corporate supervisor of the Major Customer was also the legal representative of three PRC subsidiaries of the Group;
- (iv) a former senior management member of the Group employed the legal representative of the Major Customer through another PRC company; and
- (v) information revealed that the sole shareholder of the Major Customer was a long term friend of a former senior management member of the Group.

LACK OF ARM'S LENGTH COMMERCIAL CHARACTERISTICS FOR THE TRANSACTIONS WITH THE MAJOR CUSTOMER AND THE SUPPLIERS

The Major Customer was the distributor of some of the Group's products and was authorised to operate the spas under certain brand name in the People's Republic of China. However, no royalty fees had been paid by the Major Customer for using the brand name.

Further, there was unreasonable mark-up from the costs for the products sold to the Major Customer and unreasonably long credit period had been provided to the Major Customer notwithstanding the payment should be made upon delivery in accordance with the invoices. The accounts receivable due from the Major Customer increased to over HK\$80 million as at 30 June 2010.

The Group had also provided various subsidies and/or support funds in a very substantial amount to the Major Customer over the 5-year period ended 30 June 2011. The Forensic Report reveals that the alleged subsidies and/or support funds were in fact received by a company controlled by a former senior management member of the Company and two former senior management members.

The Group had always prepaid for the purchases and allowed the suppliers to deliver the goods up to almost a year after the first prepayments had been made and sometimes even longer. The Group continued to place order and make prepayments to its suppliers without or before receiving any orders from the Major Customer. However, a year later or even longer when the Group received the delivery, the Group could immediately sell all the products to the Major Customer with considerable profit margin. It appears suspicious that the Group could predict the exact demand of the Major Customer more than one year before.

NO ACTUAL DELIVERIES FOR THE SALES AND PURCHASES

There is no documentary evidence to show that the Group had made any delivery of the sales to the Major Customer. The Forensic Report indicates that none of the four major suppliers had actually supplied or delivered the purchases recorded by the Group and therefore the Group could not be able to fulfill their sales to the Major Customer. In addition, some of those suppliers' invoices, delivery notes and receipts could be falsified. If the aforesaid is true, the sales to the Major Customer could be fictitious.

According to the record, the Group had also made substantial prepayments to other seven suppliers but the Forensic Report reveals that the prepayments to these seven suppliers also exhibited suspicious characteristics. These suppliers' invoices, delivery notes and/or receipts

could be falsified. RSM have confirmed with two of the seven suppliers that the prepayment records of the Group were wrong and they had never received such substantial prepayments from the Group.

SETTLEMENTS FROM THE MAJOR CUSTOMER WERE IN FACT MADE BY TWO FORMER SENIOR MANAGEMENT MEMBERS OF THE GROUP

The Forensic Report reveals that a substantial amount of the total settlements from the Major Customer prior to 30 June 2011 was made by two former senior management members of the Company.

POST 30 JUNE 2011 SETTLEMENTS FROM THE MAJOR CUSTOMER WERE PAID OUT BY THE GROUP SHORTLY AFTER RECEIPT

The Group received the settlements for the invoices from individuals who had no apparent relationships with the Major Customer. Furthermore, although the Group was tight in liquidity, the Group still immediately paid out all of the receipts for some projects of the Group which were lack of commercial explanations. RSM found that those projects were highly suspicious and likely to be fictitious. They further found that a number of the entities involved in the deposits or withdrawals were related to a former senior management member of the Group. RSM, during its site visit, found that the Major Customer had been closed down.

GENUINENESS OF THE SALES TO THE MAJOR CUSTOMER

Among the total sales in the amount of approximately HK\$223.1 million of the Group for the 5 years ended 30 June 2011, RSM has serious doubt as to the genuineness of the sales totaling approximately HK\$204 million (representing approximately 91.4% of the total sales of the Group) from the Group to the Major Customer for the reasons set out above.

SUSPICIOUS NEW DISTRIBUTION AGREEMENTS

The Forensic Report indicates that the new distribution agreements (the “**Distribution Agreements**”) between the Group and three new distributors (the “**Distributors**”) were all highly suspicious. The Distribution Agreements were lack of commercial explanation for the Distributors to pay a substantial amount of licence fees. The terms of the Distribution Agreements were vague and did not seem to be negotiated at arm’s length. The recorded sale to the Distributors is potentially fictitious.

SUSPICIOUS CONSTRUCTION PREPAYMENT AND MARKETING FEES

The Group made prepayments of HKD2.5 million to two companies for the decoration project of the Group’s beauty school in Guangzhou. The Forensic Report indicates that the agreements with these two companies and the prepayments to them were suspicious and unlikely to have been made under normal commercial decisions. Certain evidence also suggested that the transactions might be fictitious. Both companies were related to another agency company.

According to the accounting record of the Company, the Group had paid such agency company a total sum of HK\$750,000 as marketing fees which were lack of commercial basis. RSM considered that the entire marketing fees charged by such agency company were suspicious.

SUSPICIOUS JOINT VENTURE ACQUISITION

As disclosed in the announcement of the Company dated 9 December 2009, the Group had entered into a proposed joint venture acquisition. The Group had signed three non-binding agreements with a technology company (the “**Technology Company**”) incorporated in the People’s Republic of China in relation to a e-medical card project. The Group had paid HK\$25 million earnest money in total to secure the exclusive right to negotiate with the Technology Company and HK\$1 million for the preliminary expenses of the joint venture. The Forensic Report reveals that a substantial part of the earnest monies had been paid directly to a party without any express relationship with the Technology Company.

RSM found that the conduct of some of the former management members of the Group was suspicious in approving the payments of earnest monies. The Forensic Report also reveals that the sole shareholder of Technology Company was a good friend of one of the former management members of the Company and he had been the sole shareholder of the Major Customer. RSM considered that the investment in the e-medical card project was suspicious.

HK\$1.05 MILLION OF PREPAYMENT TO A LAW FIRM

According to the accounting records, a payment of HK\$1.05 million was made to a law firm in relation to the Group’s project in Guangzhou, the PRC. According to the receipt issued by such law firm, such payment was considered to be made by two companies related to some former senior management members of the Company in relation to the acquisition of a company (the “**Shenzhen Company**”) established in Shenzhen, the PRC but not for the Group’s project in Guangzhou. The Shenzhen Company owned a non-performing loan and entered into a settlement arrangement with its debtor to waive the non-performing loan on the condition that the debtor agreed to transfer two pieces of land in Zhuhai, the PRC to the Shenzhen Company.

By order of the Board
China AU Group Holdings Limited
Yu Shu Kuen
Chairman

Hong Kong, 9 April 2013

As at the date of this announcement, 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.

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

This announcement will remain on the “Latest Company Announcements” page of the GEM website at www.hkgem.com for a minimum period of 7 days from the date of its publication and on the Company’s website at www.china-au-group.com.