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宇陽控股(集團)有限公司
EYANG HOLDINGS (GROUP) CO., LIMITED
(於開曼群島註冊成立之有限公司)
(股份代號: 117)

ANNOUNCEMENT INTERNAL CONTROL REVIEW

Reference is made to the announcements made on 17 May 2012, 28 May 2012 and 18 June 2012 respectively (the “**Announcements**”) by EYANG Holdings (Group) Co., Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”). Unless otherwise stated, capitalized terms defined in this announcement shall have the same meanings as those defined in the Announcements.

INTRODUCTION

Our auditors, Ernst & Young, issued a qualified opinion in its report on the Group’s financial statements for the year ended 31 December 2011 (the “**Auditors’ Report 2011**”) on the basis of its inability to obtain sufficient audit evidence about the sales of mobile phones and the corresponding trade receivables during the financial year 2011. To address the issues stated in the Auditors’ Report concerning the mobile phone business, the Company set up the Special Committee comprising all three independent non-executive directors to review the internal control of the Group with focus on the Groups’ mobile phones trading business. The Special Committee proposed and the Company subsequently appointed SHINEWING as the Internal Control Consultant who completed the interim review and issued an initial report in August 2012.

FINDINGS

SHINEWING conducted a review to assess and identify significant weaknesses in the relevant financial procedures, systems and internal control of the Company and its indirectly wholly owned subsidiary Hong Kong Wei Chang NER Co., Limited (“**Wei Chang**”) which was responsible for the mobile phones trading business, and subsequently issued an interim internal controls review report (the “**Interim Review Report**”). The significant weaknesses and deficiencies found in the Interim Review Report are summarized as follows:

Financial closing and reporting:

Item No.	Entity	Findings
1	Wei Chang	Recording of journal entries – some vouchers were prepared without proper supporting documents, some cut-off errors were detected, adjustment entries were not made in a timely manner.
2	Wei Chang	Maintenance of the chart of accounts – no proper authorization procedures was put in place, lack of periodic review on the adequacy of the chart of accounts.
3	Wei Chang	Consolidated Financial Statements – no monthly financial statements of Wei Chang were prepared to produce monthly consolidated financial statements for the Group as a whole for management review.
4	The Company and Wei Chang	Financial budget and forecast – no independent review was performed for monitoring the performance of the Group, no sales forecast, purchase forecast, cash flow forecast, expense forecast and monthly analysis were provided for SHINEWING's review.
5.	Wei Chang	Policies and procedures – no formal policies and procedures for financial reporting and closing were documented.
6.	Wei Chang	Procedures of financial close – monthly closing of Wei Chang was not performed and access right to the accounts of Wei Chang was not properly authorised.

Revenue and receipt:

Item No.	Entity	Findings
7.	Wei Chang	Order placing from Customer – no proper documentation of sales orders, lack of check and review was conducted to ensure accuracy of purchase order information.
8.	Wei Chang	Sales invoice and delivery – sales information was not consistent with the relevant settlement records, no proper control over the access to Wei Chang's sales information system.
9.	Wei Chang	Customer selection and master file maintenance – review on customers was not properly performed and the related master file was not maintained.
10.	Wei Chang	Sales price – no proper mechanism was established for sales and purchase of mobile phone business, no proper documentation was put in place with supporting documents and management authorization.
11.	Wei Chang	Insurance coverage on goods in transit – Wei Chang was exposed to the risk of physical damage caused by accidents.
12.	Wei Chang	Revenue and receipt – No formal policies and procedures were established in Wei Chang for sales of mobile phones.

Procurement and payment:

Item No.	Entity	Findings
13.	Wei Chang	Procurement and payment - mismatch between purchases and payments without supporting documents for the relevant settlements. Some payment schedules was not followed according to the agreed terms and conditions.
14.	Wei Chang	Policies and procedures – no formal policies and procedures were established by Wei Chang for the mobile phones trading business.

Inventory management:

Item No.	Entity	Findings
15.	Wei Chang	Inventory movement – Wei Chang did not maintain the records of sales contracts and purchase agreements, no acknowledgement of receipts were kept by the company.

Bank and cash management:

Item No.	Entity	Findings
16.	The Company and Wei Chang	Cash register and book ledger – records of cash were not properly reconciled with the actual balances and adjustment entries were not made in a timely manner.
17.	The Company and Wei Chang	Disbursement – some disbursements were not properly authorised and timely recorded.
18.	The Company and Wei Chang	Loan facilities – approval of loan facilities provided by banks were not properly documented with relevant supporting approval from the Board.
19.	The Company and Wei Chang	Bank accounts management – no regular review on the usage of bank accounts opened with different banks.
20.	The Company and Wei Chang	Bank and cash related policies and procedures – no formal policies and procedures were established for petty cash management, cheque management, bank accounts management, disbursement, bank and cash payment and receipt as well as loan facilities.

PROGRESS OF IMPLEMENTING REMEDIAL MEASURES

Following the release of the Interim Review Report, the Company and the Special Committee discussed the issues raised in the report with SHINEWING and began to implement a series of remedial measures to strengthen the overall internal control system. The progress of works of internal control system improvement is summarized as follows:

Financial closing and reporting:

Item No.	Entity	Measures taken
1	Wei Chang	Journal entries are made with proper supporting documents in a timely manner with a review by senior finance staff.
2	Wei Chang	Proper authorisation procedures are set up to maintain the chart of accounts with regular review by the management.
3	Wei Chang	Monthly financial statements are prepared for preparation of Group's consolidated financial statement.
4	The Company and Wei Chang	Formal policies for budgeting and forecast is being established for the purpose of providing the management with updated information to assess performance and revise its business and operation planning.
5.	Wei Chang	Formal policies and procedures have been prepared to govern monthly closing procedures.
6.	Wei Chang	Monthly closing is performed in a timely and access to the accounting system is restricted to designated personnel.

Revenue and receipt:

Item No.	Entity	Measures taken
7.	Wei Chang	Sales orders are well documented and review by senior accounting staff is conducted accordingly.
8.	Wei Chang	Sales information is aligned with settlement records and access to sales records in the accounting system is restricted to the designated staff.
9.	Wei Chang	Information of customers is well documented. A review is conducted to ensure the accuracy of the information.
10.	Wei Chang	A proper pricing mechanism is established to assist the management to achieve the pre-set performance target and to conduct review on the mobile phone trading business.
11.	Wei Chang	Arrangement has been made to transfer all the risk associated with the goods during the transfer from suppliers to the ultimate customers.
12.	Wei Chang	Formal policies and procedures have been established and enforced.

Procurement and payment:

Item No.	Entity	Measures taken
13.	Wei Chang	Procurement and its subsequent settlement are properly matched with the corresponding supporting documents.
14.	Wei Chang	Formal policies and procedures have been established and enforced.

Inventory management:

Item No.	Entity	Measures taken
15.	Wei Chang	Sales contracts and purchase agreements are properly signed and documented. The corresponding settlement was properly recorded with the relevant support of customers' acknowledgement of receipt.

Bank and cash management:

Item No.	Entity	Measures taken
16.	The Company and Wei Chang	Reconciliation and adjustment of the cash account in the system is made in a timely manner to reflect the latest information.
17.	The Company and Wei Chang	Disbursements are recorded with approval from senior management and in a timely manner.
18.	The Company and Wei Chang	Loan facilities granted by banks are well documented with formal approval from the board of directors.
19.	The Company and Wei Chang	Process of closing idle bank accounts has been started
20.	The Company and Wei Chang	Formal policies and procedures have been established

The Company is in the process of assessing the results of the remedial measures that have already been implemented and closely monitor those that are being implemented. It is expected that all issues raised in the Interim Review Report can be properly addressed at the end of this year. And SHINEWING will, according to the scope of duties stated in the engagement letter, conduct a year end review early 2013 to assess the adequacy of the internal control system of the Group as a whole.

By order of the Board
EYANG Holdings (Group) Co., Limited
Chen Weirong
Chairman

Hong Kong, 2 November 2012

As at the date of this announcement, the Board comprises Mr. Chen Weirong, Mr. Liao Jie and Mr. Xu Chunheng as Executive Directors; Ms. Shuang Mei, Mr. Cheng Wusheng, Mr. Zhang Zhilin and Mr. Chen Hao as Non-executive Directors; Mr. Pan Wei, Mr. Liu Huanbin and Mr. Chu Kin Wang, Peleus as Independent Non-executive Directors.