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宇陽控股(集團)有限公司

**EYANG HOLDINGS (GROUP) CO., LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 117)**

## **FINDINGS OF THE INTERNAL CONTROL REPORT AND THE SPECIAL COMMITTEE REPORT**

Reference is made to the announcements made by the Company dated (i) 17 May 2012 in relation to, among other things, the establishment of the Special Committee; (ii) 28 March 2013 in relation to the suspension of trading of the shares in the Company on the Stock Exchange; (iii) 16 May 2013 regarding, among other things, the Resumption Conditions imposed on the Company by the Stock Exchange; (iv) 28 June 2013 in relation to the appointment of Pan-China as an internal control consultant of the Company; (v) 25 September 2013 in relation to a further update on the progress of fulfillment of Resumption Conditions; (vi) 4 November 2013 in relation to, among other things, the appointment of Mr. Liang Rong and Mr. Mak Ka Wing, Patrick as members of the Special Committee; and (viii) 11 November 2013 in relation to the resignation of Mr. Xu Chuncheng as a member of the Special Committee (the “**Announcements**”). Unless otherwise stated, terms used herein shall have the same meanings as those defined in the Announcements.

### **BACKGROUND**

The Company's former auditors, Ernst & Young, issued a qualified opinion on the consolidated financial statements of the Group for the year ended 31 December 2011 in respect of its audit on the mobile phone trading business (the “**Qualified Opinion**”).

In May 2012, the Board established the Special Committee comprising all independent non-executive Directors at that time, namely Mr. Pan Wei, Mr. Liu Huanbin and Mr. Chu Kin Wang, Peleus, and the Group's Chief Financial Officer, namely Mr. Xu Chuncheng, to investigate into the matters leading to the Qualified Opinion and to recommend remedial measures to the Board to improve, or rectify any inadequacy or defect to be identified in, the internal control systems maintained by the Group.

Following the recommendation from the Special Committee, the Board engaged SHINEWING in June 2012 as the Internal Control Consultant to conduct an interim internal control review of the Group with a focus on the mobile phone trading business operated by Weichang for the period from 1 January 2012 to 30 June 2012. A summary of the findings of

the interim review and the corresponding remedial measures taken by the Group was announced by the Company on 2 November 2012.

Subsequent to the suspension of trading in the shares of the Company on the Stock Exchange on 2 April 2013, the Special Committee recommended the Board to (i) extend the review period and further examine the internal control systems and (ii) engage PRC lawyers to examine the legality of the operation of the mobile phone trading business of the Group and issue legal opinion in this regard. In June 2013, Pan-China was engaged by the Company as an additional internal control consultant to review and advise on the financial reporting, risk management, IT management, human resources internal audit, corporate governance, etc. of the Group for the period from 1 January 2013 to 30 June 2013. SHINEWING resigned as the internal control consultant of the Company in July 2013 and Pan-China was then engaged to undertake an overall internal control review of the Group covering 18 months from 1 January 2012 to 30 June 2013 as recommended by the Special Committee. Pan-China had completed its review and submitted an internal control review report to the Special Committee for further discussion.

In November 2013, Mr. Liang Rong and Mr. Mak Ka Wing, Patrick, being independent non-executive Directors appointed subsequent to the establishment of the Special Committee, were appointed as new members of the Special Committee. As at the date of this announcement, the Special Committee comprised all five independent non-executive Directors, namely Mr. Pan Wei, Mr. Liu Huanbin, Mr. Chu Kin Wang, Peleus, Mr. Liang Rong and Mr. Mak Ka Wing, Patrick. The Special Committee had completed its investigation and its report covering, among other matters, the steps taken by the Special Committee to investigate into the mobile phone trading activities of Weichang, its recommendations to the Board to improve the internal control systems of the Group, and its findings had been submitted to the Board for further discussion.

#### **SUMMARY OF THE INTERNAL CONTROL REVIEW FINDINGS BY PAN-CHINA AND THE REMEDIAL MEASURES BEING UNDERTAKEN BY THE COMPANY**

Pan-China has completed a thorough review of the internal control systems of the Group covering financial reporting, risk management, IT management, human resources internal audit, corporate governance for the period from 1 January 2012 to 30 June 2013 and its findings are summarised as below:

<i>Item</i>	<i>Internal Control Review Finding</i>
1.	The Company did not have proper policies and procedures in place to monitor its continuous compliance with the Corporate Governance Code as stipulated in Appendix 14 to the Listing Rules.
2.	The roles of chairman of the Board and chief executive officer of the Company were performed by the same individual.

3.	The Special Committee was set up without announcing any terms of reference and there was no evidence of any involvement of the Special Committee in monitoring the progress of or following up on the corrective actions in response to the internal control findings reported by SHINEWING.
4.	The appointment of directors in May 2013 did not go through proper procedures specified under the Nomination Committee's terms of reference.
5.	The Nomination Committee and the Remuneration Committee failed to hold any meeting at least once every year.
6.	The Company had not established any internal control procedures for handling and dissemination of inside (price sensitive) information.
7.	The competency and caliber of the staff in the Finance Department did not meet the standard required for operating and controlling a proper internal control and financial reporting system in compliance with the applicable accounting standards and listing requirements.
8.	The business operational flow between companies of the Group were complicated giving rise to mistaken accounting entries as well as omissions resulted in disagreement of intercompany balances.
9.	Manpower and resources of the Finance Department were not properly allocated with reference to the workload required for preparing monthly closing and interim and annual reporting.
10.	Considerable number of errors was found during the process of auditing and disagreement of intercompany balances reflected insufficient control and supervision in the Finance Department. Financial review and control of the Group was not properly performed to produce accurate and up-to-date financial information.
11.	The Group consolidation journal entries were not maintained as permanent accounting records giving rise to difficulties in finalizing the Group's consolidation accounts in the subsequent year.
12.	The internal audit function was not properly set up or effective.

13.	The operating control system in relation to sales recognition was satisfactorily put in place despite some procedural discrepancies found.
14.	The operating control system in relation to receivables was satisfactory put in place despite some procedural discrepancies were found.
15.	The control procedures in relation to procurement were put in place with a few procedural discrepancies found.
16.	The control procedures in relation to account payables were put in place with a few procedural discrepancies found.
17.	The procurement and inventory control procedures in relation to dealing with materials purchased for maintenance projects were not strictly adhered to. There was no control system in the Finance Department to monitor the progress and cost accounting of the materials consumed by these maintenance projects.
18.	The Company maintained no policies and procedures to monitor and control the opening of bank accounts.
19.	Some transactions were carried out through a few of personal bank accounts.
20.	There was no regular review and monitoring on the progress of the construction and/or acquisition of plant and machinery projects by the Finance Department.
21.	There were no business continuity policies and disaster recovery plans for the Group.
22.	Deficiencies were found in Weichang's documentation with its customers, operational procedures and accounting policies.

In response to the internal control review findings, the Company, with the recommendation of the Special Committee, has been undertaking a series of remedial measures to improve its internal control systems and corporate governance, which are set out below in the same order of the abovementioned findings:

<i>Item</i>	<i>Remedial Measures Being Undertaken by the Company</i>	<i>Progress</i>
1.	To set up and document adequate policies and procedures and provide necessary training to the	To be completed early December 2013

	executives to ensure that the Corporate Governance Code will be complied with on a continuous basis.	
2.	To more clearly and precisely define the roles and duties of the chairman of the Board and chief executive officer of the Company, respectively.	To be completed by end of December 2013
3.	To strengthen the knowledge and expertise of the Special Committee by bringing in two additional independent non-executive Directors with diverse background and professional knowledge with clear and well defined terms of reference mainly to investigate into the matters leading to the Qualified Opinion and to recommend remedial measures to the Board to improve, or rectify any inadequacy or defect to be identified in, the internal control systems.	Completed
4.	To put in place mechanisms to ensure that future appointments of Directors will comply with the proper procedures commensurate with those requirements as stated in the Corporate Governance Codes contained in Appendix 14 to the Listing Rules.	Being implemented on an on-going basis
5.	To put in place mechanisms to ensure that each of the Nomination Committee and the Remuneration Committee meets at least once a year to discuss the related matters.	Being implemented on an on-going basis
6.	To invite external professional body to conduct training workshop on the latest requirements for handling price sensitive information under the Listing Rules and the SFO.	Completed by early December 2013
7.	To identify a competent candidate to take up the role to lead the Finance Department	Commence in mid October 2013

8.	To streamline the business operation flow between companies of the Group, document the accounting procedures and policies and perform monthly intercompany accounts reconciliation.	Commence in mid October 2013
9.	To assess manpower resources and rationalise the resources by way of recruitment and training to meet the manpower demand for monthly report, interim report and annual report.	Commence by early November 2013
10.	To clarify each individual's role and duties in the Finance Department and put a formal performance assessment mechanism in place to trace and rectify errors found in the department.	Being implemented on an on-going basis
11.	To maintain permanent consolidation accounting records with proper explanation for future reference and to put in place mechanisms to ensure that consolidated adjustments for the year are made in a timely manner.	Being implemented on an on-going basis
12.	To identify suitable candidates to take up the responsibilities of conducting internal audit and setting up efficient internal audit procedures.	A supervisor committee was set up in October 2013 to supervise the identification and recruitment process
13.	To review and improve the operation flow of the sales cycle to ensure compliance with the respective policies and procedures.	Commence by late October 2013
14.	To review and improve the operation flow of the accounts receivables cycle to ensure compliance with the respective policies and procedures.	Commence by late October 2013
15.	To revisit and fine tune the procedures and policies for procurement.	Commence by late October 2013

16.	To revisit and fine tune the procedures and policies for account payables cycle.	Commence by late October 2013
17.	To revise the control procedures to strengthen the monitoring functions of the inventory control system.	Commence by late October 2013
18.	To set up formal policies for opening bank accounts, and close all idle or redundant bank accounts in stages.	To be completed by late December 2013
19.	To close all the personal bank accounts used by the Company.	Completed by late December 2013
20.	To put on the agenda of Company's monthly meeting a review of any change of and movement in the Group's property, plant and equipment for monitoring purpose.	Being implemented on an on-going basis
21.	A feasibility study has been conducted and the corresponding improvement plan is being developed.	Completed in November 2013
22.	To put in place mechanisms to ensure that the deficiencies found in Weichang's customers' documentation, operations procedures and accounting policies will not happen to other companies of the Group in the future.	Being implemented on an on-going basis

## **FINDINGS OF THE SPECIAL COMMITTEE'S INVESTIGATION ON THE MOBILE PHONE TRADING BUSINESS**

After reviewing the internal control review report issued by Pan-China and the opinion issued by a PRC law firm on the legality of the mobile phone trading business operated by Weichang; and on the basis of its own investigation results, the Special Committee concluded the following findings:

1. No trading fraudulence was found in the mobile phone trading business conducted by Weichang;
2. The operation of the mobile phone trading business conducted by Weichang did not contravene any PRC laws and related rules and/or regulations;
3. The mobile phone trading business conformed to the international practice regarding

sale and purchase of goods and fell within the threshold of normal and reasonable business activities commonly practised in the PRC;

4. The problems associated with the mobile phone trading business were generated from inadequate attention from the management which led to insufficient management and supervision in the business operation; and apparent defects in the internal control systems. However, there was no evidence showing any integrity problem of the management of the mobile phone trading business; and
5. The Company's internal control systems were not well developed; management guidelines were not clear; management training and execution had to be improved; financial control had to be strengthened, financial management, review and control were not adequate; operational procedures of sale, procurement and inventory control were not up to standard; risk management and its related precaution measures had to be strengthened. The management should rectify all internal control defects identified in the internal control review report, provide practicable timelines for the rectification and confirm with Pan-China the date to conduct the fieldwork for reviewing the internal control systems of the Group after implementation of the remedial measures.

The Board has accepted the report submitted by the Special Committee and agrees to adopt the recommendations suggested therein to improve the internal control systems of the Group. It is expected that a follow up review will be performed by Pan-China in February 2014 to assess the effectiveness and adequacy of the enhanced internal control systems after the implementation of the abovementioned remedial measures in the context of the requirements under the Listing Rules.

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

Hong Kong, 2 December 2013

*As at the date of this announcement, the Board comprises Mr. Chen Weirong and Mr. Jing Wenping, Mr. Wang Ye as Executive Directors, Mr. Cheng Wusheng, Mr. Zhang Zhilin and Mr. Chen Hao as Non-executive Directors and Mr. Pan Wei, Mr. Liu Huanbin, Mr. Chu Kin Wang, Peleus, Mr. Liang Rong and Mr. Mak Ka Wing, Patrick as Independent Non-executive Directors.*