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

**宇陽控股（集團）有限公司**

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

(Stock Code: 117)

**STATUS UPDATE  
AND  
UPDATE ON INTERNAL CONTROL FOLLOW-UP REVIEW**

Reference is made to the announcement made by EYANG Holdings (Group) Co., Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) dated 2 December 2013, relating to findings of the Internal Control Report and the Special Committee Report; and the announcements made by the Company dated 28 February 2014 and 28 March 2014 respectively, in relation to, inter alia, further delay in the publication of the final results for the year ended 31 December 2012 (“**2012 Final Results**”), the interim results for the six months ended 30 June 2013 and the final results for the year ended 31 December 2013 (“**2013 Final Results**”) (collectively the “**Announcements**”). Terms defined in the Announcements shall have the same meanings when used herein unless the context requires otherwise.

**Status update**

Reference is made to the announcement made by the Company dated 28 March 2014.

The Company was informed by the Auditors that having considered that (i) they could not collect sufficient audit evidence (limitation of scope) for both the sales and purchase cycle of the mobile phone trading business during its audit work for the financial statements for the year ended 31 December 2012; and (ii) the mobile phone trading business accounted for more than 21% of the total revenue of Group for the year ended 31 December 2012, which the Auditors considered to be material and pervasive with respect to the consolidated financial statements for the year, the Auditors proposed a draft audit opinion (the “**Audit Opinion**”) for the consolidated financial statement for the year ended 31 December 2012 .

Both the Board and the Audit Committee of the Board (the “**Audit Committee**”) considered that the Audit Opinion might not truly reflect the state of the Company's affairs for the year ended 31 December 2012 and that the proposed Audit Opinion was not commensurate with the information contained in 2012 Final Results by making reference to the same for the year ended 2011. The views of the Board and the Audit Committee were communicated to the Auditors. A further discussion was held by telephone conference on 15 April 2014. During the conference, the Audit Committee inquired about the Auditors' different treatment of mobile phone trading business and the Auditors had further explained their basis of the Audit Opinion. The Audit Committee opined that the Company should revisit

the materials and information before arranging a further discussion with the Auditors.

The auditing works on the consolidated financial statement of the Group for the year ended 31 December 2013 has begun and the 2013 Final Results is expected to be published in July 2014.

The Board will issue a further update on the progress of preparation of 2012 Final Results, 2013 Interim Results and 2013 Final Results as and when appropriate.

### **Update on internal control follow-up review**

Reference is made to the announcement by the Company dated 2 December 2013 (the “**2 December 2013 Announcement**”), relating to, among others, the summary of the internal control review findings set out in its report dated 30 September 2013 (the “**First Report**”) and the remedial measures being taken by the Company.

Pan-China (H.K.) CPA Limited (“**Pan-China**”), the internal control consultant of the Company, has submitted their report of the follow-up review (the “**Follow-up Review**”) of the internal control system of the Group to the Company on 14 April 2014. The report noted that “*the Company has taken a vigorous attitude in correcting the identified weaknesses at all level of business processes and financial control. The effort is observed from the constitution of the Supervisory Committee with monthly progress meetings to review the correction effort, as well as increasing resources in enhancing the capability of the SAP system.*” The report further highlighted that most of the weaknesses identified in the First Report have been effectively improved.

The results of the follow-up review are summarised as below:

| <b>Item</b> | <b>Internal Control Review Findings</b>  | <b>Improvement / Status</b>   |
|-------------|--|---|
| 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.  | Documentation updated   |
| 2.          | The roles of chairman of the Board and chief executive officer of the Company were performed by the same individual.   | Situation being reviewed every year.  |
| 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. | Terms of reference of Special Committee formulated and announced in circulars.  |
| 4.          | The appointment of directors in May 2013 did not go through proper procedures specified under the Nomination Committee’s terms of reference.   | New director appointments properly documented at Nomination Committee meetings. |

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| 5.  | The Nomination Committee and the Remuneration Committee failed to hold any meeting at least once every year.  | Mandatory meetings are being held annually.   |
| 6.  | The Company had not established any internal control procedures for handling and dissemination of inside (price sensitive) information.   | Inside information control procedures have been formulated and implemented.   |
| 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.  | Mr. Ruan Ren Zong, matching the competency requirements for the position, has been appointed CFO on 18 September 2013.                      |
| 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.  | The intra-group processes on MLCC operations have since been streamlined and reduced from 12 processes to 9 processes.                      |
| 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.  | Finance Department has streamlined accounting tasks to speed up the monthly routine of bank reconciliations and intra-group reconciliation. |
| 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. | Finance Department has been reorganized according to respective finance and processing functions.   |
| 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.  | Group consolidation journals have been secured.   |
| 12. | The internal audit function was not properly set up or effective.   | Being prioritized and expected to be formulated in the second quarter of 2014   |
| 13. | The operating control system in relation to sales recognition was satisfactorily put in place despite some procedural discrepancies found.  | Procedures reviewed and updated.  |
| 14. | The operating control system in relation to receivables was satisfactory put in place despite some procedural discrepancies were found.   | Procedures reviewed and updated.  |
| 15. | The control procedures in relation to procurement were put in place with a few procedural discrepancies found.  | Procedures reviewed and updated.  |

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| 16. | The control procedures in relation to account payables were put in place with a few procedural discrepancies found.  | Procedures on MLCC Segment reviewed and updated. Procedures on Batteries Segment to be updated. |
| 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. | Procedure on MLCC Segment reviewed and updated.   |
| 18. | The Company maintained no policies and procedures to monitor and control the opening of bank accounts.   | Bank account opening policies reviewed and updated.   |
| 19. | Some transactions were carried out through a few of personal bank accounts.  | The bank accounts concerned have been closed.   |
| 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.   | Procurement procedures updated to keep Finance Department informed & update in SAP system.      |
| 21. | There were no business continuity policies and disaster recovery plans for the Group.  | Initial plan has been put in place. Implementation plan will commence in May 2014.              |
| 22. | Deficiencies were found in Weichang's documentation with its customers, operational procedures and accounting policies.  | Weichang has been put into voluntary liquidation on 28 June 2013.                               |

The Board will issue an update on the progress of implementing those outstanding items as and when appropriate.

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

Hong Kong, 24 April 2014

*As at the date of this announcement, the Board comprises Mr. Chen Weirong, Mr. Jing Wenping and 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.*