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**DONGYUE GROUP LIMITED**

**東岳集團有限公司**

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

**(Stock code: 189)**

**PROGRESS OF INTERNAL CONTROL REVIEW  
AND  
UPDATE ON PROGRESS OF FULFILLMENT OF RESUMPTION  
CONDITIONS**

Reference is made to the Announcements. Unless otherwise defined herein, capitalized terms used in this announcement shall have the same meanings ascribed to them in the Announcements.

**PROGRESS OF INTERNAL CONTROL REVIEW**

As disclosed in the announcement of the Company dated 14 December 2016, the Board engaged one of the big four accounting firms as the Internal Control Adviser on 12 December 2016 to assist the Management to assess the internal control from the Company's perspective and procedural perspective covering the period from 1 December 2015 to 30 November 2016. The scope of work of the Internal Control Adviser includes (i) an independent assessment of the internal control from the Company's perspective covering control environment, risk assessment, control operation, information and communication and supervision; and (ii) an independent assessment of the internal control of the Relevant Subsidiaries from procedural perspective including sales, trade receivables and collection, procurement, trade payables and payment, inventory management, production and costs, human resources and compensation, fixed assets management, cash and treasury management, financial reporting, contract management and the general control of information technology system.

The Internal Control Adviser's assessment of the internal control of the Company was conducted in two phases:

The first phase was to summarize the findings from the internal control review, provide recommendations with reference to industry practice, and provide a written assessment report to the Management. After the Management has implemented remedial measures in respect of the findings about internal control in the first phase, the Internal Control Adviser reviewed the samples of remedied procedures in order to evaluate the effectiveness of such measures implemented, and submit the assessment results of the second phase with a follow-up report on the remedial measures

implemented for internal control to the Management. The Internal Control Adviser has completed the first phase report, and issued the second phase follow-up report on the remedial measures implemented for internal control in respect of the internal control assessment on 26 April 2017.

In addition, the Internal Control Adviser conducted an independent assessment of the Company's inside information management and disclosure procedures and the procedures for preparation of financial and accounting information in March 2017. With respect to the review of the procedures for preparation of financial and accounting information, the Internal Control Adviser identified the weaknesses of the Company through interviews with the Management from the perspective of the relationship between financial organization and reporting, the formulation of accounting policies and procedures, the financial approval and reporting structure and the regular financial and book-closure procedure. With respect to the review of inside information management procedure, the Internal Control Adviser had an understanding of the Company's current inside information management and disclosure procedure and the corresponding management system and guidelines through interviews with the Management, and identified the relevant weaknesses of the Company by comparing them against the Guidelines on Disclosure of Inside Information issued by the Securities and Futures Commission of Hong Kong. During the process of assessment in the two aspects mentioned above, the Internal Control Adviser collected relevant information, conducted walk-through tests, identified key control areas, and provided remedial or improvement recommendations to the Management for consideration with reference to industry practice. The Internal Control Adviser has issued the relevant report on 26 April 2017.

The Management has been continuously improving the internal control system of the Company. They have reviewed the abovementioned findings regarding internal control and taken appropriate remedial measures based on the recommendations proposed by the Internal Control Adviser to address the findings in relation to internal control.

The Management acknowledged, among other findings from the internal control assessment, the following key findings about the treasury management procedures. The Management also confirmed that relevant remedial measures have been implemented:

**Key findings**

**Remedial measures that have been implemented according to confirmation of the Management**

Copies of shareholders' resolution in respect of loans of the Relevant Subsidiaries have not been kept as supporting documents for loan approval

The Group has revised and implemented the measures for treasury management with provisions stipulating that the Group's finance department shall keep shareholders resolutions, board resolutions, loan facilities and other relevant materials in respect of loans of the Relevant Subsidiaries as the supporting documents for loan approval.

<p>Cash revenue was used to pay off expenses directly</p> <p>When cashiers prepared bank reconciliations, incompatible duties were not properly separated</p> <p>“Paid” seals had not been stamped on certain fund application forms in respect of budgeted or non-budgeted payments</p> <p>No written application and approval records were kept for disbursement of reserved funds</p> <p>Incompatible duties in the keeping of seals reserved in banks were not separated</p> <p>There was no explicit requirement for recording the use and borrowing of seals, nor was there any record of use or borrowing of seals in practice</p>	<p>The Relevant Subsidiaries have revised and implemented the measures for treasury management, expressly stipulating that the cashier shall not make payment with any cash revenue directly, and shall comply with the requirement of the “separate record of revenue and expenditure”.</p> <p>The Management confirmed that the accountants of the settlement center and/or finance department of the Relevant Subsidiaries shall independently check the bank statements of all bank accounts and balance of all bank deposits, and prepare bank reconciliations for the director of the settlement center and/or the head of finance department to review.</p> <p>The Management has revised and implemented the measures for treasury management, and confirmed that cashiers to stamp the original voucher in a timely manner following completion of payment.</p> <p>The Management confirmed that cashiers shall submit a written application to the head of the finance department for approval and shall keep the approval records for disbursement of reserved funds.</p> <p>The Management confirmed that the chief accountant and the fixed asset accountant of the finance department shall keep the seals used by the finance department and the legal representative of the Relevant Subsidiary respectively to achieve separate custody of seals reserved in banks.</p> <p>The Group has amended and implemented the “System of Seal Management of Dongyue Group” to stipulate that the seal custodian is responsible for establishing a seal use registry to record all use and borrowing of seals in details.</p> <p>The seal use form and the seal borrowing form of the relevant subsidiaries have been registered with the BPM system for record of application and approval for use and borrowing of seals.</p>
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No limit was set on payment by cheque or via online banking of bank accounts

The Management has instructed the settlement center and/or finance department of the Relevant Subsidiaries to communicate with banks for setting limits on payment by cheque or via online banking of bank accounts to strengthen management on payments of large amount of funds.

The Relevant Subsidiaries confirmed that they have accordingly revised and implemented their measures for management of cash and bank deposits, amongst which, Shandong Huaxia Shenzhou New Materials Co., Ltd requires that (1) in case of making transfer via online banking system, 3-tier review from the cashier, the accountant and the head of financial department will be required for making any payment for goods for a sum exceeding RMB5 million, payroll transfer for a sum exceeding RMB1 million or foreign exchange transfer or settlement for a sum exceeding RMB10 million from the account of the China Construction Bank; (2) the other banks shall set limit on payment via online banking in accordance with the actual needs of the Company, and if any adjustment of such limits is needed, approval by the head of financial department will be required before the relevant information is submitted to the banks to proceed with such adjustment; and (3) each cash cheque and each account transfer cheque shall not involve a sum exceeding RMB250,000 and RMB5 million respectively, and each repayment of loan made by way of cheque shall not involve a sum exceeding the repayment amount as stipulated in the loan agreement.

The other Relevant Subsidiaries require that (1) the management of the U-Keys used for online banking should be strengthened, and 3-tier review from the cashier, the accountant and the director of settlement center will be required for making any payment for goods for a sum exceeding RMB5 million or payroll transfer for a sum exceeding RMB5 million (RMB7 million in the case of Shandong Dongyue Chemicals Co., Ltd) from the account of the China Construction Bank; (2) each cash cheque and each account transfer cheque shall not involve a sum exceeding RMB250,000 and RMB5 million, respectively, and each repayment of loan made by way of cheque shall not involve a sum exceeding the repayment amount as stipulated in the loan agreement.

After review of the contents and results of the internal control assessment report prepared by the Internal Control Adviser, and taking into consideration the remedial measures having been taken according to confirmation of the Management, the Board believes that the Company has adequate financial reporting procedures and internal control procedures in place to fulfill its obligation under the Listing Rules. The Board also believes that the Company's existing financial reporting procedures and internal control procedures can effectively prevent misappropriation of funds in the future.

## **CONTINUED SUSPENSION OF TRADING**

Trading in the shares of the Company on the Stock Exchange has been suspended at the request of the Company since 9:00 a.m. on 1 April 2016 and will remain suspended until further notice.

**Shareholders and potential investors of the Company are advised to exercise caution when dealing in the shares of the Company.**

## **DEFINITIONS**

Unless the context of this announcement otherwise specifies, the terms herein shall have the following meanings:

“Announcements”	means	the announcements of the Company dated 30 September 2016, 14 December 2016, 17 February 2017 and 31 March 2017
“Board”	means	the board of directors of the Company
“BPM System”	means	online business process management system

“Company”	means	Dongyue Group Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange
“Group”	means	the Company and its subsidiaries
“Internal Control Adviser”	means	the independent internal control adviser engaged by the Group on 12 December 2016
“Listing Rules”	means	The Rules Governing the Listing of Securities on the Stock Exchange
“Management”	means	the management of the Group
“Relevant Subsidiaries” or each, a “Relevant Subsidiary”	means	Shandong Dongyue Polymers Co., Ltd, Shandong Huaxia Shenzhou New Materials Co., Ltd, Shandong Dongyue Chemicals Co., Ltd, Shandong Dongyue Organosilicon Materials Co., Ltd and Shandong Dongyue Fluo-Silicon Materials Co., Ltd, all of which being the major operating subsidiaries of the Company
“RMB”	means	Renminbi, the legal currency of the People’s Republic of China
“Stock Exchange”	means	The Stock Exchange of Hong Kong Limited
“U-Keys”	means	an electronic device used by banks to verify the identity of the users of online banking

By Order of the Board  
**Dongyue Group Limited**  
**Zhang Jianhong**  
*Chairman*

The PRC, 28 April 2017

*As at the date of this announcement, the directors of the Company are Mr. Zhang Jianhong, Mr. Fu Kwan, Mr. Liu Chuanqi, Mr. Cui Tongzheng, Mr. Feng Jianjun and Mr. Zhang Jian as executive directors, and Mr. Ting Leung Huel, Stephen, Mr. Yang Xiaoyong and Mr. Yue Run Dong as independent non-executive directors.*