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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)

FINDINGS OF THE FORENSIC REVIEW REPORT

References are made to the announcements of Dongyue Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 24 February 2016, 31 March 2016, 20 May 2016, 4 July 2016 and 31 August 2016, respectively (the “**Announcements**”) in relation to, among other things, the misappropriation of funds of the Group. Unless the context otherwise requires, capitalised terms used in this announcement shall have the same meanings as defined in the Announcements.

The board of directors of the Company (the “**Board**”) have authorised the Independent Committee in February 2016 to investigate into the suspected misappropriation of funds of the Group. As disclosed in the Company’s announcement dated 31 March 2016, the Independent Forensic Expert was engaged by the Independent Committee through the Independent Counsel to perform the Review. The Company wishes to update its shareholders that the Review has been completed and the Independent Forensic Expert has issued a forensic review report (the “**Forensic Report**”) to the Independent Committee setting out its findings.

The Independent Forensic Expert was engaged to assist in ascertaining (i) how the Suspected Potential Misappropriation and Suspected Misappropriation (collectively the “**Alleged Financial Transactions**”) had happened and the person(s) involved and/or had knowledge of the matter; and (ii) whether there were other potentially suspicious funds transfers.

The key findings of the Forensic Report relating to the Alleged Financial Transactions in the Company’s view are summarised below. The Company’s response to the issued Forensic Report in respect of some of the findings therein is also set out below.

A. Nature of the Alleged Financial Transactions

RMB978.2 million wealth management investment

As part of “wealth management investment”, the Independent Forensic Expert found, from a list of the Alleged Financial Transactions provided by the Internal Audit Director (審計總監) of the Company and other available documents, that a balance totalling RMB978.2 million as of 31 December 2015 was due from a group of nine companies (collectively, the “**MC Companies**”), the names of which are set out below, to two subsidiaries of the Group, namely Shandong Dongyue Chemicals Co., Ltd. (山東東岳化工有限公司) (“**Dongyue Chemicals**”) and Shandong Dongyue Polymers Co., Ltd. (山東東岳高分子材料有限公司) (“**Dongyue Polymers**”) (collectively, the “**Two Subsidiaries**”). The transactions were understood to be a series of loans made to the MC Companies through Qishang Bank, Huantai branch (齊商銀行桓台支行), which is a local bank in Zibo city in the PRC (hereafter referred to as the “**Qishang Bank**”), from time to time. The last transfer was made in April 2015 and the entire balance of RMB978.2 million as of 31 December 2015 remains due from the MC Companies.

	Recipients of RMB978.2 million (Note (i))
1.	Shandong Wan Bao Xin Metal Material Co., Ltd. (山東萬寶鑫金屬材料有限公司)

2.	Shandong Li De Si Energy Saving Environmental Protection Technology Co., Ltd. (山東利德思節能環保科技有限公司)
3.	Shandong Heng Tai Jie Neng New Material Technology Co., Ltd. (山東恒泰節能新材料科技有限公司) (<i>Note (ii)</i>)
4.	Shandong Xin Nong Ji Biological Technology Co., Ltd. (山東新農基生物科技有限公司)
5.	Shandong Meng Cheng Electronics Co., Ltd. (山東盟誠電氣有限公司)
6.	Shandong Qi Tai Nuan Tong Equipment Co., Ltd. (山東麒泰暖通設備有限公司)
7.	Zibo Ai Li She Trading Co., Ltd. (淄博愛麗舍經貿有限公司)
8.	Zibo Sheng Quan Jie Neng Environmental Protection Technology Co., Ltd. (淄博盛泉節能環保科技有限公司)
9.	Zibo Hong Ri Nuan Tong Equipment Co., Ltd. (淄博紅日暖通設備有限公司)

Notes:

- (i) The English names of the companies in the table are not the official translation of their respective Chinese names and are set out above for identification purpose only.
- (ii) Shandong Heng Tai Jie Neng New Material Technology Co., Ltd. (山東恒泰節能新材料科技有限公司) was formerly known as Shandong Meng Cheng Energy Saving Environmental Protection Technology Co., Ltd. (山東盟誠節能新材料科技有限公司).

The Forensic Report stated that, as per the Public Security Authority and the Group, these MC Companies were under the control of two individuals, Li Fangxue and Tian Maolian. According to the Forensic Report, no direct connection or relationship between the Company's personnel and the personnel of the MC Companies was found based on the information available, although the Independent Forensic Expert noted that a company, of which one of the shareholders is purportedly Li Bin's sister, shares the same registered address with four out of the nine MC Companies. Li Bin, the former PRC financial controller (財務總監) of the Company, is the Suspect as referred to in the Company's announcement dated 24 February 2016.

RMB500 million bank security deposits

The Independent Forensic Expert understood through the review of available documents provided by the Company that a total sum of RMB500 million of the Two Subsidiaries had been placed in the Bank of Communications Company Limited, Qingdao branch (交通銀行股份有限公司青島支行) (hereinafter referred to as the "QD BComm Bank") in the PRC as security deposits for the QD BComm Bank lending the same amount of loans to two of the MC Companies (namely MC Companies no. 3 and 8 in the table above). Such two MC Companies subsequently defaulted on repayment of the entire RMB500 million loans due to the QD BComm Bank and as a result, the RMB500 million security deposits placed by the Two Subsidiaries with the QD BComm Bank were forfeited by the bank.

B. How the Alleged Financial Transactions took place

Internal proposal

The Alleged Financial Transactions were known to the Chairman and the CFO of the Company as wealth management transactions or products invested by the Company. According to the Chairman of the Company, the idea of investment in wealth management products was first proposed in an internal proposal prepared by the Financial Supervision Centre (財務監管中心) to the management of the Company in April 2011. In the proposal, it was claimed that the Group had a large amount of bank acceptance bills and it was proposed that in order to reduce capital cost and increase profits of the Group, the Group be engaged in bank-arranged entrustment loans by utilising the bank acceptance bills. The internal proposal, however, did not indicate who prepared the proposal.

The Company's response - The internal proposal was submitted by Li Bin.

The Forensic Report cited that according to the Chairman of the Company, Li Bin had represented that the borrowers of entrustment loans with good credibility would be backed-up by the bank and even in case of any issues with the borrowers, the bank would provide new loans to the borrowers for repayment of the loans owed to the Group. The Chairman of the Company, having considered the proposed wealth management transactions to be safe given banks were to be involved, authorised Li Bin to handle the

wealth management transactions. The internal proposal was first approved by the CFO of the Company and further by Liu Chuanqi, the President and executive director of the Company. However, there was no documentary evidence to show that Li Bin specifically had been authorised by the Group to run the bank wealth management transactions.

Entering into of agreements

The Independent Forensic Expert found four wealth management framework agreements, bearing the signature of the Chairman of the Company. Two of the four wealth management framework agreements appeared to be signed in 2013 and 2014, respectively, between the Two Subsidiaries and the Qishang Bank. The remaining two wealth management framework agreements, bearing the signatures of the general managers of the Two Subsidiaries, appeared to be signed in 2014 and 2015, respectively, and the Two Subsidiaries were the only party in these two agreements. The Chairman of the Company and the general managers of the Two Subsidiaries informed the Independent Forensic Expert that they could not recall having signed such two agreements and the Chairman of the Company said that such agreements may not be effective as there was only one party in the agreements.

The Forensic Report noted that, according to the Chairman of the Company, the wealth management framework agreements between the Qishang Bank and the Two Subsidiaries formed the basis and the authorisation of wealth management transactions with the Qishang Bank.

The Company's response - The Company considers that such framework agreements, together with the approved internal proposal mentioned above, evidenced the Group's authorisation of the whole wealth management arrangements with the Qishang Bank.

The Forensic Report noted that there was no documentary evidence showing that Li Bin had been specifically authorised by the Group to run the wealth management arrangements.

The Company's response - Nonetheless, the Company considers that it was within the powers of Li Bin, as financial controller of the Company at the prevailing times who had full control of the wealth management function, to implement the wealth management arrangements including the individual transactions.

Apart from the wealth management framework agreements with the Qishang Bank, the Independent Forensic Expert also found various entrustment loan contracts entered into among Dongyue Chemicals or Dongyue Polymers, the Qishang Bank and the MC Companies which may be related to the RMB978.2 million wealth management investment. Such entrustment loan contracts appeared to be signed by the general managers of the Two Subsidiaries. The Forensic Report noted that apart from their signatures on such entrustment loan contracts, the two general managers claimed that they did not have other involvement or knowledge of the Alleged Financial Transactions.

In respect of the RMB500 million bank security deposits, the Independent Forensic Expert found two tripartite agreements both dated 26 December 2014, one entered into among Dongyue Chemicals, the QD BComm Bank and Shandong Heng Tai Jie Neng New Material Technology Co., Ltd. (山東恒泰節能新材料科技有限公司) and another one entered into among Dongyue Polymers, the QD BComm Bank and Zibo Sheng Quan Jie Neng Environmental Protection Technology Co., Ltd. (淄博盛泉節能環保科技有限公司). The company chops of the Two Subsidiaries (reportedly kept by the Two Subsidiaries) and the individual name chops of the Two Subsidiaries' respective general manager were found on the respective tripartite agreement. The Forensic Report noted that it appeared from the tripartite agreements that the loans were provided to the two MC Companies for them to purchase materials from the Two Subsidiaries, which was supported by two purchasing contracts entered into by Dongyue Chemicals and Dongyue Polymers, respectively. However, the Independent Forensic Expert found no records showing any sales from the Two Subsidiaries to the two MC Companies. The general managers of the Two Subsidiaries did not recall seeing the tripartite agreements and the purchasing contracts.

The Company's response - According to the Chairman and the CFO of the Company, they were not aware of the entering into of such tripartite agreements and purchasing contracts at the relevant time.

Implementation of individual transactions – payments and book-keeping

The Independent Forensic Expert understood that Li Bin and two other former employees, namely Zhang Xiaolin and Gong Xiaolei who were bank cashiers (銀行出納員) of the Group (collectively, the “**Cashier**”

Officers”), were former employees of the Settlement Centre (結算中心) of the Group, which controlled the Company’s treasury function.

The Forensic Report noted that, according to the CFO, the Internal Audit Director and the current Vice Director of the Settlement Centre, Li Bin had full control of the implementation of the wealth management arrangements and the management of the Company was not involved in the discussion, approval and execution of individual transactions under the wealth management arrangements. The Independent Forensic Expert could not find any approval of the individual transactions relating to the RMB978.2 million wealth management investment and therefore was not able to ascertain whether or not the individual transactions had been approved by the management of the Company.

The Independent Forensic Expert also found that the RMB978.2 million wealth management investment were paid out by means of cheques, internet banking transfers or bill receivables and the RMB500 million bank security deposits were paid out by means of internet banking transfers. The Independent Forensic Expert was informed by the Group that the custody of the relevant finance and legal representative stamps (used to endorse cheques, bill receivables and contracts), internet banking tokens, cheque books, password devices for cheques and accounting vouchers in connection with such payments were reportedly under the control of the Cashier Officers. Internet banking user accounts were reportedly only made accessible to the Cashier Officers. As the Independent Forensic Expert was not able to interview the two Cashier Officers, it could not ascertain who was responsible for processing the relevant payments of the wealth management transactions.

In terms of book-keeping in respect of the Alleged Financial Transactions, the Forensic Report noted from its review of the accounting vouchers and accounting system that the payments relating to the Alleged Financial Transactions were initiated by the Cashier Officers, and the accounting entries entered by the Cashier Officers were then reviewed by the respective internal accountants of the Two Subsidiaries. According to the finance managers of the Two Subsidiaries, they had not questioned Li Bin about the Alleged Financial Transactions as they were told by Li Bin that the transactions had already been approved by the management of the Company. According to the internal accountant of Dongyue Polymers, all relevant wealth management contracts were reportedly kept by Li Bin.

As per the Public Security Authority, Li Bin and the Cashier Officers, due to their involvement in the Alleged Financial Transactions, were arrested by the Public Security Authority and one of them was released on bail pending trial.

Internal communication with management of the Company

The Independent Forensic Expert found that during the period from May 2013 to January 2015, Li Bin had provided the CFO and the Financing Manager (融資部經理) of the Company with updates on the status of the wealth management business of the Group by way of internal emails from time to time. From April 2015 onwards, the update emails were prepared by Li Bin and forwarded by the Financing Manager to the CFO. The updates contained details of investment transactions of the Company and the expected collection dates. However, the Independent Forensic Expert found that most of the Alleged Financial Transactions did not appear in the update emails to the CFO.

The Forensic Report also noted that in April 2015, the CFO of the Company sent an email to Li Bin inquiring about the nature of the balance of RMB500 million placed in the QD BComm Bank. Li Bin replied to the CFO of the Company that the funds were deposited in the QD BComm Bank for wealth management products with potential returns.

The Company’s response – the Company noted that the email from the CFO was in response to a summary of the Group’s bank account balances received from the Financing Department (融資處) of the Group.

Other findings

By performing a fund flow analysis on the Company, the Forensic Report noted instances where when loans were made by the Group to companies (including the MC Companies), the Group received repayment of the principal and/or interest of earlier loans made by the Group to other companies (including other MC Companies) within the same day. According to the Forensic Report, such fund flow patterns may suggest that old loans owed to the Group were repaid by new loans borrowed from the Group, resulting in the outstanding balances being rolled forward.

The Company's response - The Company noted that no affirmative conclusion was drawn in the Forensic Report on such observations. The Company also noted that the Independent Forensic Expert was unable to review books and records of the MC Companies.

C. How the Alleged Financial Transactions were discovered

An internal audit was carried out by the audit department of the Group from 10 August 2015, during which, among others, the balances owed by the MC Companies to the Two Subsidiaries as wealth management investment of the Group under Li Bin's arrangement were identified. In early September 2015, the Internal Audit Director prepared a template of repayment agreement to be entered into between the Two Subsidiaries and the MC Companies for the CFO of the Company to consider. The Forensic Report noted that according to the CFO of the Company, there was a plan for the MC Companies to repay all wealth management funds and accrued interest owed to the Group.

On 14 September 2015, the audit department issued an internal audit report, which noted that, among others, (i) a considerable amount (being RMB978.2 million) of funds of the Group was lent out through the Qishang Bank as wealth management and certain interest accrued on such funds had not been received and (ii) the balance of RMB500 million placed in the QD BComm Bank remained unchanged since the funds were deposited into the bank on 31 December 2014. The internal audit report recommended the Company to end the wealth management business of the Group. The internal audit report was later approved and signed by the Chairman of the Company on 16 September 2015. The Independent Forensic Expert, through electronic data review, found three subsequent internal audit reports sent from the Internal Audit Director to the CFO of the Company by way of email after 16 September 2015. The Chairman and the CFO of the Company informed the Independent Forensic Expert that they could not recall reviewing any of such subsequent internal audit reports.

Under the arrangement of the Internal Audit Director of the Company, the Two Subsidiaries and the MC Companies entered into repayment agreements dated 15 September 2015 which set out the respective repayment amount and repayment schedule. The controllers of the MC Companies, namely Li Fangxue and Tian Maolian, and Li Bin were guarantors of the MC Companies and their signatures and thumb prints were found in the repayment agreements. The repayment agreements also bear the name chops of the general managers of the Two Subsidiaries. The Forensic Report noted that according to the Chairman and the CFO of the Company, both of them were aware at the prevailing time that the Internal Audit Director of the Company was making arrangements in respect of the repayment agreements in around September 2015, they, however, had not reviewed the signed repayment agreements.

The Independent Forensic Expert also found an internal email sent from an employee of the Settlement Centre (who is currently the Vice Director of the Settlement Centre) to the CFO of the Company in October 2015, setting out, among others, issues surrounding the Alleged Financial Transactions and other wealth management transactions and recommendations of actions to be taken by the Company in anticipation of audit enquiries. The Forensic Report did not perform any work on the recommendations made and therefore could not verify whether any such recommendations were implemented by the Group.

As disclosed in the Company's announcement dated 24 February 2016, on 2 November 2015, upon enquiries with the QD BComm Bank, the Company was informed that the balance of the security deposits had become zero and the Company immediately reported the incident to the Public Security Authority. Subsequently, with the coordination of the Public Security Authority, the Internal Audit Director of the Company and his staff reviewed certain books and records of the MC Companies and the Internal Audit Director produced a report of his review to the CFO of the Company to identify where the funds had gone.

D. No other potential suspicious funds transfer could be ascertained

For the purpose of ascertaining whether there was other potential suspicious funds transfer apart from the Alleged Financial Transactions, the Independent Forensic Expert sampled and reviewed other wealth management transactions of the Group (i.e. not being the Alleged Financial Transactions and which did not involve transfer(s) to any MC Companies). The Independent Forensic Expert found that the Group's personnel who were responsible for the accounting vouchers and accounting system approvals for such sampled wealth management transactions were similar to those involved in the Alleged Financial Transactions – the relevant accounting entries were entered by the Cashier Officers and then approved by the internal accountants and finance managers of the relevant subsidiaries or other personnel of the

Settlement Centre of the Company after the payments were made accordingly. The Forensic Report could not ascertain whether there was any other potential suspicious funds transfer.

E. Other observations

The Forensic Report noted that there were instances where certain borrowers of the Group's wealth management investment (all non-MC Companies, except one, namely Zibo Hong Ri Nuan Tong Equipment Co., Ltd. (淄博紅日暖通設備有限公司) (“**Hong Ri**”)) received funds from two companies (namely Zibo Han An Trade Co., Ltd. (淄博漢安商貿有限公司) (“**Han An**”) and Huan Tai Township Social Welfare Construction Material Factory (桓台社會福利新型建材廠) (“**Construction Material Factory**”)) and repaid certain balances due to the Group on the same day, which according to the CFO of the Company resulted in decrease in the balances due to the Group and increase in cash balances of the Group at the relevant time. The Forensic Report stated that according to the responsible officer of Han An, the funds were transferred from Han An to the aforesaid borrowers as enterprise loans for the purpose of facilitating their cash flows, which was in line with the common local practice in Huantai County (桓台縣).

The Forensic Report noted that during the internal audit mentioned above, apart from the amount of RMB1,478.2 million owed by the MC Companies to the Two Subsidiaries as wealth management investment of the Group, the Internal Audit Director also identified a RMB60 million loan made by the Group to Hong Ri, one of the MC Companies. According to the CFO of the Company, the local government of Huantai County requested the Group to lend a RMB60 million loan to a designated local company in Huantai County as funding assistance. In response to such request from the local government, the CFO of the Company instructed Li Bin to arrange for the loan transfer. However, the Forensic Report noted that according to the Chairman and the CFO of the Company, they were unaware that Li Bin made the transfer to the designated local company through using Hong Ri as an intermediary. Such RMB60 million loan was later repaid through Hong Ri at the end of 2015 with funding received from Construction Material Factory.

The Company's response – The Company noted that the RMB60 million loan mentioned above had been fully repaid and is unrelated to the RMB1,478.2 million wealth management investment of the Group.

According to the Forensic Report which referred to records of the State Administration for Industry and Commerce of the PRC, (i) Han An is a PRC company in which certain directors of the Company had investment interest at different point of time; and (ii) Construction Material Factory is a government enterprise owned by the Economic Commission of Tangshan Township in Huantai County (桓台縣唐山鎮經委) and is an independent third party not connected with the Company.

The Forensic Report noted that according to the Internal Audit Director of the Company, he deleted certain electronic files from Li Bin's computer when he was searching for clues for the Public Security Authority's investigation, for the reasons that the files were confidential information of the Group and were irrelevant to the incident, and might in his view cause negative impact if provided to the Public Security Authority. In response to the observation regarding the deletion of computer files by the Internal Audit Director, the Company had reported the observation to the Public Security Authority. Certain deleted files, which may be relevant to the Review, were later successfully restored by the Independent Forensic Expert. The Forensic Report stated that the Independent Forensic Expert was unable to ascertain the completeness of the electronic data preserved from Li Bin's computer as deleted and overwritten files, if any, could not be restored, which potentially limited the Review.

The Company's response - For the response of the Public Security Authority to the reported matter concerning the deletion of certain electronic files, please refer to the section “Updates from the Public Security Authority” below.

F. Conclusion in the Forensic Report

Extracted below is the conclusion set out in the Forensic Report:

In view of the nature of the matter, the Independent Forensic Expert had encountered the following limitations during the Review, which had significantly limited the ability to achieve the objectives of the Review:

- (i) Although the Group informed its employees on 10 March 2016 to retain all documents relating to the review, the Independent Forensic Expert noted from the electronic data collected that there were electronic files being deleted on 10 March 2016 and after;
- (ii) The Qishang Bank rejected to provide all wealth management transactions contracts and related board resolutions;
- (iii) The Qishang Bank and the QD BComm Bank rejected or did not reply to the Independent Forensic Expert's interview request and therefore the Independent Forensic Expert was unable to understand how the contracts were signed with the banks and how the banks monitored the wealth management transactions made by the Group;
- (iv) The Independent Forensic Expert was unable to carry out interviews with the ten relevant personnel arrested or detained by the Public Security Authority (including Li Bin and Gong Xiaolei (one of the two Cashier Officers), who are the key personnel allegedly involved in the Alleged Financial Transactions, the person-in-charge of the MC Companies and the former personnel of the Qishang Bank and the QD BComm Bank) and four relevant personnel who are released on bail, to understand the modus operandi for the Alleged Financial Transactions; and
- (v) The Independent Forensic Expert was unable to carry out discussions with nine non-MC Companies which borrowed loans from the Group, to understand the repayment arrangements made with the Group.

Based on the electronic data review, the Independent Forensic Expert noted that in around September 2015, the management and certain personnel of the Group had different levels of understanding on the Alleged Financial Transactions. However, as at the date of the Forensic Report, there is no evidence to show that the management and other personnel of the Group were involved in the misappropriation of funds. Management had previously approved the use of the Group's funds for wealth management transactions and signed the wealth management framework agreement with the Qishang Bank to improve the returns on the Company's funds. However, as there is insufficient evidence and based on the review of available information, the Independent Forensic Expert was unable to determine how each individual Alleged Financial Transactions happened and who was involved. There was also no evidence showing that the management had approved each of the Alleged Financial Transactions. In addition, as there was no apparent distinction in the Group's personnel's involvement in the contract signing, book-keeping and payments processes for the Alleged Financial Transactions and wealth management transactions made with other companies, the Independent Forensic Expert was unable to determine if there were any other suspicious funds transfers.

Other than the observations mentioned in the previous paragraph, the Independent Forensic Expert noted that towards the end of 2015, the management arranged for funds to be transferred from a company, namely Han An, and a government enterprise, namely Construction Material Factory, to other non-MC Companies for them to settle their outstanding wealth management transaction balances with the Group.

UPDATES FROM THE PUBLIC SECURITY AUTHORITY

On 22 August 2016, the Company received a letter from the Public Security Authority titled "explanation of progress of investigation on suspected misappropriation of funds by Li Bin", stating that 14 individuals including employees of the relevant banks, responsible persons of the MC Companies and former employees of the Group had been arrested by the Public Security Authority or released on bail pending trial. As at the date of this announcement, apart from Li Bin and the Cashier Officers (namely Zhang Xiaolin and Gong Xiaolei), no other personnel of the Group were involved in the Alleged Financial Transactions. The flow of funds regarding the misappropriated funds in the total amount of RMB1,478.2 million had been ascertained and such flow of funds is not connected with the management of the Group.

Furthermore, on 8 September 2016, the Company was informed by the Public Security Authority that the deletion of files from Li Bin's computer by the Internal Audit Director did not affect the investigation and the findings of the Public Security Authority regarding the incident.

According to the Public Security Authority, it considers that under PRC law the incidents relating to the RMB1,478.2 million misappropriated funds of the Group were serious criminal incidents involving collective participation of multiple parties, including relevant banks and management personnel from the banks, recipient

enterprises of the funds and internal individuals (being Li Bin and the two Cashier Officers), which caused the outflow(s) and loss of funds of the Group.

REMEDIAL ACTIONS TAKEN AND PROPOSED BY THE COMPANY

As disclosed in the Company's announcement dated 24 February 2016, the Company has enhanced its internal control measures, including adjustment and enhancement of capital raising and financing procedures, payment procedures for transfers of cash in large sums, financial payment procedures, cash-for-use reporting procedures, expense reimbursement procedures, receipt, cheque and chop management procedures and internal audit procedures. The Company has implemented such enhanced measures since adoption for the purpose of preventing future occurrences of similar incidents.

In addition, the Board confirms that as at the date of this announcement, apart from the Alleged Financial Transactions, all other wealth management investments of the Group have been retrieved and there are no outstanding wealth management receivables.

In respect of the misappropriated funds relating to the Alleged Financial Transactions, the Company is seeking PRC legal advice from several PRC law firms regarding possible legal proceeding(s) against the parties involved to recover inter alia the Company's loss. As disclosed in the Announcements, 49 properties and 27 lots of land have been attached by the Public Security Authority.

The Board has also resolved to take the following remedial actions:

- (i) the Company will engage an internal control adviser to conduct a comprehensive assessment of the internal control system of the Group and provide recommendations to the Company;
- (ii) the Company will arrange for training to all members of the Board and senior management of the Company on compliance rules and regulations applicable to listed companies in Hong Kong;
- (iii) the Company will formulate internal policies and a procedure manual on inside information to be circulated to all employees of the Group and the department heads of each of the key operating subsidiaries of the Company will be delegated the responsibility to provide introductory training to their subordinates; and
- (iv) the Company will formulate internal policies and procedures on financial and accounting information reporting and communications.

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 securities of the Company.

By Order of the Board
Dongyue Group Limited
Zhang Jianhong
Chairman

The PRC, 30 September 2016

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.