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LERADO GROUP (HOLDING) COMPANY LIMITED

(隆成集團(控股)有限公司)*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1225)

INTERNAL CONTROL REVIEW

Reference is made to the News Release of the Stock Exchange and the announcement of the Company dated 23 May 2013. The Company has appointed the Adviser to conduct the Internal Control Review. The Adviser has completed the First Report.

Based on the results of the Internal Control Review, the Adviser has recommended a number of enhancements to the Company's policy on disclosure of inside information under the Listing Rules and the SFO. The Company agrees that the areas identified by the Adviser are weaknesses in the Company's process in discharging its disclosure and communication of inside information obligations under Rule 13.09 of the Listing Rules and Part XIVA of the SFO. The Company will consider adopting the recommendations of the Adviser in a timely manner.

The Adviser will conduct a further review and issue a further report on the Company's implementation of their recommendations within a period of two months after the issue of the First Report.

Reference is made to the news release of the Stock Exchange dated 21 March 2013 (the "**News Release**") in relation to, among others, the censure of the Company for its breaches of Rule 13.09 of the Listing Rules, and the announcement of the Company dated 23 May 2013. Unless otherwise defined, terms used in this announcement shall have the same meanings as used in the News Release.

Pursuant to the directions of the Listing Committee of the Stock Exchange, the Company has appointed a reputable independent international accounting firm (the "**Adviser**") to conduct a review of the internal control system of the Company and make recommendations to assist the Company with its process of compliance with the relevant laws and regulations with respect to the disclosure of price sensitive and/or inside information (the "**Internal Control Review**"). The Adviser has completed the Internal Control Review and issued its report (the "**First Report**") on its findings and recommendations. The First Report was submitted to the Stock Exchange on 21 May 2013 and a supplemental report was submitted to the Stock Exchange on 3 June 2013.

FINDINGS AND RECOMMENDATIONS

Based on the results of the Internal Control Review, the Adviser has identified the following areas of enhancements to the Company's process in respect of discharging its disclosure and communication of inside information obligations under Rule 13.09 of the Listing Rules and Part XIVA of the Securities and Futures Ordinance (the "**SFO**") (Chapter 571 of the laws of Hong Kong). A brief summary of the findings and recommendations of the Adviser is set out below:

- **The Group’s Inside Information Policy should be enhanced.**

The Adviser noted that the Company has prepared a draft inside information policy (the “**Inside Information Policy**”) outlining various aspects of the Group’s policies and procedures in identifying, assessing and handling inside information. The Adviser noted that the draft Inside Information Policy does not set out in details the roles and responsibilities of the officers of the Group under the SFO, the disclosure requirements of the Company under the SFO, the preservation of confidentiality regarding the information before disclosure, and the requirement of a comprehensive dissemination of information.

The Adviser recommended that the draft Inside Information Policy be formalised and approved as soon as possible and enhancements be made in respect of the areas identified.

- **The definition of Senior Management of the Group should be enhanced.**

The Adviser noted that the Company has defined “Senior Management” of the Group as Executive Directors, CFO (or in the case of the Group, the Financial Controller) and the Company Secretary per the Annual Report for the year ended 2012 and recommended that the definition of “Senior Management” be more clearly defined and communicated to such “Senior Management” regarding their obligations under the Listing Rules. In addition, the “Senior Management” should be clearly identified and included as the “Officers” of the Group in the Inside Information Policy.

- **Policies and procedures for monitoring the market expectation of the Group’s performance and share price movements should be formally established.**

The Adviser noted that the Group has no formal policies and procedures on the roles and responsibilities as well as the detailed processes to be followed by the team tasked with monitoring the market expectation of the Group’s performance and its share price movements and recommended that formal policies and procedures are put in place to monitor the market expectation of the Company’s performance and actual share price movements as required under Rule 13.09 of the Listing Rules.

- **Criteria used in identifying inside information should be more specific.**

The Adviser noted that the Company currently considers whether inside information disclosure is required only when the net profit/loss of the consolidated financial statements has a fluctuation of up to a certain level when compared with the same period from the previous year. The draft Inside Information Policy has also included 34 common examples of events or circumstances set out in the paragraph 34 of the SFC’s Guidelines on Disclosure of Inside Information.

The Adviser recommended the management to revisit the current inside information criteria and re-assessed the level of the profit and loss threshold and includes both quantitative and qualitative factors in the evaluation of inside information. It is recommended that qualitative factors should also be considered together with the quantitative criteria, and the Group may also consider conducting a benchmark analysis to other similar organisations when setting a more comprehensive set of criteria. A mechanism to revisit and reassess the appropriateness of the criteria should also be established.

- **Formal internal and external communication protocols (including inside information) should be established.**

The Adviser noted that the Company has an investor communication policy (the “Investor Communication Policy”) in place. However, this policy does not cover the following areas:

- issuance and announcement of interim report and results;
- response to regulator's enquiries;
- compliance with relevant continuing disclosure obligations of the Listing Rules and regulatory requirements;
- classification of information according to the level of sensitivity and the respective handling and reporting methods; and
- consultation, approval and disclosure procedures for external communication.

The Adviser recommended that the management to adopt measures to promote more effective internal communications within the Group and also enhance the Investor Communication Policy to address the areas identified.

- **Documentary records of assessing and disclosing inside information should be maintained.**

The Adviser noted that there is currently no requirement in place for the Group to maintain documentary evidence of the assessment and disclosure decisions on potential inside information. The rationale and discussions of these events at Board meetings are not documented.

The Adviser recommends that a record of all identified potential inside information should be maintained by the Group.

- **Training programmes (including current requirement of inside information) to senior management/officers should be enhanced.**

The Adviser noted that periodic training on the Listing Rules or regulatory requirements (including inside information) to senior management/officers has not been conducted, although certain members attend various training courses in their own capacity. The Financial Controller or the Finance & Investor Relations Manager also provides updates on the regulatory requirements through email communications with the Directors.

The Adviser recommends that a structured approach to provide regular training be considered for senior management/officers, in addition to provide updates on the Listing Rules or regulatory requirements via email communication.

- **Accounting and finance representation on the Board should be strengthened.**

The Adviser noted that the accounting and finance function is not represented at the Board level through a CFO/Finance Director/Financial Controller/senior member of the function. The Adviser recommended that the Board should have the Financial Controller to participate in all Board meetings as an adviser to the Board to increase the financial accountability of the Board and to enhance the Group's corporate governance.

The Company has reviewed and considered the First Report and agrees with the findings of the Adviser. The Company will consider and adopt the recommendations of the Adviser in a pragmatic and timely manner. The Company believes that the implementation of the enhancement will serve to assist the Company in reducing risks and improving effectiveness in relation to identifying, assessing and handling inside information relating to the Company.

The Adviser will conduct a further review and issue a further report on the Company's implementation of their recommendations within two months after the issue of the First Report.

By order of the Board of
Lerado Group (Holding) Company Limited
Leung Man Fai
Company Secretary

5 June 2013

As at the date of this announcement, the Board of Directors of the Company comprises Mr. Huang Ying Yuan, Ms. Huang Chen Li Chu and Mr. Chen Chun Chieh being the Executive Directors, and Mr. Lim Pat Wah Patrick, Mr. Huang Zhi Wei and Mr. Chern Shyh Feng being the Independent Non-executive Directors.

** For identification purposes only*