



**THE STOCK EXCHANGE OF HONG KONG LIMITED**  
(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)  
(the “Exchange”)

21 March 2013

**The Listing Committee of The Stock Exchange of Hong Kong Limited (the “Listing Committee”) censures Lerado Group (Holding) Company Limited (the “Company”) (Stock Code: 1225) for its breach of Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).**

**The Listing Committee further censures four current and former executive directors of the Company (collectively the “Directors”):**

- (1) Mr Huang Ying Yuan (“Mr YY Huang”);**
- (2) Ms Huang Chen Li Chu (“Ms Huang”);**
- (3) Mr Chen Chun Chieh (“Mr CC Chen”); and**
- (4) Mr Chen Chao Jen, (resigned effective on 31 January 2013) (“Mr CJ Chen”)**

**for their respective breaches of their obligations under the Declaration and Undertaking with regard to Directors given to the Exchange in the form set out in Appendix 5b to the Listing Rules in failing to use best endeavours to procure the Company’s Listing Rule compliance (the “Undertaking”).**

**Facts**

The Company’s shares were listed on the Exchange on 18 December 1998. The Company’s FY2010 results announced on 30 March 2011 reported \$104,977,000 net profit for the year ended 31 December 2010, 49 per cent increase compared to FY2009 net profit of \$70,331,000.

The Company’s business and financial performance deteriorated significantly in the course of the six months ended 30 June 2011 (the “**Interim Period**”) compared to the corresponding period in 2010. Since February 2011, the Company’s monthly consolidated management accounts (the “**Monthly Accounts**”) circulated to the Directors in the first week of the following month had been recording a significant drop in net profit compared to the corresponding period in FY2010 as reflected in the table below.

YTD US\$'000	Jan	Feb	Mar	Apr	May	Jun
<b>Revenue</b>						
<b>2010</b>	13,940	26,995	45,347	62,431	83,647	103,979
<b>2011</b>	19,660	31,924	51,970	71,748	93,748	110,188
<b>Net profit</b>						
<b>2010</b>	(1,428)	444	2,788	4,485	6,846	7,615
<b>2011</b>	1,122	(325)	142	(556)	595	1,643
<b>% change</b>	+178.6%	-173.2%	-94.9%	-112.4%	-91.3%	-78.4%

In the first week of May 2011, the Monthly Accounts for four months to 30 April 2011 were circulated to the Directors. They recorded US\$556,000 net loss, which represented a 112.4 per cent drop compared to the corresponding period in FY2010.

The YTD April Management Accounts referred to above were presented at a Board meeting on 31 May 2011.

In the first week of June 2011, the Monthly Accounts for five months to 31 May 2011 were circulated to the Directors. They recorded US\$595,000 net profit, which represented a 91.3 per cent drop compared to the corresponding period in FY2010.

On 11 July 2011, the Company published a profit warning announcement (“PWA”) after trading hours, disclosing that “*the financial results of the Group for the six months ended 30 June 2011 are expected to decrease significantly as compared with that for the corresponding period in 2010*”.

On the next trading day, 12 July, the Company’s share price fell by 30.3 per cent at the maximum (from \$1.22 to \$0.85) and closed with a decrease of 28.7 per cent (from \$1.22 to \$0.87) compared to that on 11 July. Trading volume was 32,172,000, 19 times of the 10-day average.

On 29 August 2011, the Company announced its 2011 Interim Results which:

- (1) reported a net profit of \$12.813 million, a 78 per cent decline compared to 1H2010 net profit of \$59.093 million; and
- (2) disclosed, among other things, that: “*Impacted by negative factors such as significant increase in raw material price of plastic and metal pipe, increase in labor cost and continuous appreciation of RMB during the period, the Group’s gross profit margin decreased to 19.5% (2010: 25.1%). The Group had undergone review on price adjustment with its customers and suppliers and reduced the production of less profitable products.*”

## **Allegations of breaches by the Listing Division (the “Division”)**

### Company’s breach of Rule 13.09

Unless otherwise stated, reference to Rule 13.09 in this press release refers to the rule in force in 2011.

Rule 13.09 required issuers to disclose, as soon as reasonably practicable, any information which (a) is necessary to enable shareholders and the public to appraise the position of the group; (b) is necessary to avoid the establishment of a false market in the Company’s securities; or (c) which might be reasonably expected materially to affect market activity in and the price of its securities.

Note 11(ii) to Rule 13.09 further elaborated that the obligation must be discharged without delay where to the knowledge of the directors there is such a change in the Company’s financial condition or the performance of its business or the Company’s expectation of its performance that knowledge of the change is likely to lead to substantial price movement.

The Division asserts that:

- (1) The significant deterioration in the Group’s business and financial performance in the course of the Interim Period as reflected in the Monthly Accounts described above was not information in the public domain, was outside market expectation, was price sensitive and required disclosure as soon as reasonably practicable under Rule 13.09(1)(a) and (c). Such magnitude of performance deterioration was also a change in the Company’s business and financial performance which was likely to lead to substantial price movement, discloseable without delay under Note 11(ii) to Rule 13.09.
- (2) The Company’s obligation to publish an announcement disclosing the performance deterioration arose in the first week of May 2011, when the Directors had in their possession the YTD April 2011 Monthly Accounts which reported a US\$556,000 net loss, 112 per cent drop compared to the corresponding period in FY2010.
- (3) Further or in the alternative, the disclosure obligation arose:
  - (a) on 31 May 2011, when the YTD April Monthly Accounts were discussed at a Board meeting; or
  - (b) in the first week of June 2011, when the Directors had in their possession the YTD May Monthly Accounts which reported a US\$595,000 net profit, 91 per cent drop compared to the corresponding period in FY2010.
- (4) Publication by the Company of the PWA on 11 July 2011 was not publication “*as soon as reasonably practicable*” and “*without delay*” required by Rule 13.09.
- (5) The Company therefore breached Rule 13.09.

The Division further asserts that the Company's internal controls to ensure the Company's compliance of Rule 13.09 were not adequate and effective as:

- (1) the Company did not have any written internal procedures with regards to Rule 13.09 compliance;
- (2) there was a lack of guidelines for senior management and Directors to determine whether a piece of information was price sensitive information requiring disclosure under Rule 13.09; and
- (3) there was no reference to any internal procedures or mechanism in place by which the Company gauges and monitors market expectation of its performance and its share price movements, which were essential to the consideration of whether Rule 13.09 disclosure was required.

#### Directors' breach of Undertaking

The Division asserts that the Directors have breached their Undertakings in that:

- (1) having knowledge of the deterioration at all relevant times during the Interim Period, they have failed to ensure timely publication of a Rule 13.09 Announcement to inform the market of such deterioration; and
- (2) they failed to ensure the internal controls of the Company to ensure the Company's Rule 13.09 compliance were adequate and effective.

#### **Settlement**

As a consequence of a settlement, the Company and the Directors do not contest the breaches asserted by the Division above and accept the sanctions and directions imposed on them by the Listing Committee as set out below.

#### **Findings of breach by the Listing Committee**

On the basis of the facts and circumstances and with the Company and the Directors not contesting the Division's assertion of breaches, the Listing Committee finds that:

- (1) the Company breached Rule 13.09 of the Listing Rules; and
- (2) each Director breached the Undertaking.

#### **Regulatory Concern**

The Listing Committee would stress that the Hong Kong securities market is disclosure based. Investors and shareholders rely on information in the public domain to make their investment decisions. Timely disclosure by listed issuers of relevant information of their financial performance is thus crucial to enable shareholders and investors to make informed investment decisions. The Committee notes with concern that:

- (1) Since February 2011, the Monthly Accounts had been reporting a significant deterioration (YOY 78 per cent to 173 per cent) in the Company's business and financial performance.
- (2) At all relevant time, all Directors were aware of the Company's significant performance deterioration which had persisted in the course of the Interim Period. However, the information was not available or made known to the market throughout the Interim Period. Disclosure was made only after Interim Period on 11 July 2011.
- (3) There was a substantial delay in publishing the PWA on 11 July 2011. Those investors and shareholders of the Company who traded in the Company's shares during the period did so without knowledge of the Company's significant performance deterioration. Shareholders and investors have been deprived of their right to timely receipt of crucial information relating to the Company and its performance.
- (4) The Company did not have adequate internal controls to ensure Rule 13.09 compliance.
- (5) The Company's failure to disclose its deteriorating financial performance for nine weeks, notwithstanding clear evidence available to the Directors in the form of the Monthly Accounts, suggests:
  - (a) the Directors' failure, collectively and individually, to understand the Company's obligations; and
  - (b) at the very least the Directors' poor judgment and understanding of Rule 13.09 requirements and their obligations towards shareholders, investors and the wider market.

The Listing Committee therefore considers that the breaches are serious warranting public sanctions; and call for remedial actions to be taken by the Company and the Directors to improve compliance performance and culture.

In particular with the inside information disclosure regime under the Securities and Futures Ordinance becoming effective on 1 January 2013 (the "**Securities and Futures Ordinance**"), it is crucial that the Company and its Directors are familiar with the requirements to ensure due compliance with the law including the requirement to take all reasonable measures to ensure proper safeguards exist to prevent breaching the statutory disclosure obligation. The Committee therefore regards the extension of the scope of the Directors' training to statutory inside information disclosure under the Securities and Futures Ordinance appropriate.

### **Sanctions**

Accordingly, having made the findings of breach against the Company and each of the Directors as stated above, the Listing Committee censures:

- (1) the Company for its breach of Rule 13.09; and
- (2) each of Mr YY Huang, Ms Huang, Mr CC Chen and Mr CJ Chen for their respective breaches of Undertaking.

Further, the Listing Committee directs as follows:

- (1) The Company:
  - (a) retains an independent professional adviser satisfactory to the Committee and/or the Division (the “**Adviser**”) to conduct a thorough review of and make recommendations to improve the Company’s internal controls to ensure compliance with Rule 13.09 within two weeks from the date of publication of this Press Release; and provides the Division with the written report of the Adviser containing such recommendations within two months from the publication of the Press Release. The Company is to submit the proposed scope of retainer to the Division for comment before appointment of the Adviser; and
  - (b) furnishes the Division with the Adviser’s written report of the Company’s full implementation of the Advisers’ recommendations within a further period of two months.
- (2) Each of Mr YY Huang, Ms Huang and Mr CC Chen who are current directors of the Company attends 24 hours of training on Listing Rule compliance, director’s duties and corporate governance matters together with four hours on disclosure of inside information (under the Securities and Futures Ordinance) provided by HKICS, HKIoD or other course providers approved by the Division, to be completed within 120 days from the publication of the Press Release. The Company is to provide the Division with the training provider’s written certification of full compliance with this training requirement by these directors within two weeks after their full compliance with the training requirement.
- (3) Mr CJ Chen has resigned as a director of the Company and is not currently a director of any other company listed on the Exchange. As a pre-requisite of his future appointment as a director of any company listed on the Exchange provided, he is required to (a) attend 24 hours training on Listing Rule compliance duties, director's duties and corporate governance matters together with four hours on disclosure of inside information (under the Securities and Futures Ordinance) provided by HKICS, HKIoD or other course providers approved by the Division before the effective date of any such appointment; and (b) provide the Division with the course provider's written certification of compliance.
- (4) The Company is to publish an announcement to confirm that each of the directions in sub-paragraphs (1) to (2) above has been fully complied with within two weeks after the respective fulfillment of each of those directions. The last announcement required to be published under this requirement is to include the confirmation that all directions in sub-paragraphs (1) to (2) above have been complied with.
- (5) The Company is to submit drafts of the announcements referred to in sub-paragraph (4) above for the Division’s comment and may only publish the announcements after the Division has confirmed it has no further comment on them.

For the avoidance of doubt, the Exchange confirms that this public censure applies only to the Company and the Directors identified above and not to any other past or present members of the Board of Directors.