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鈞 濠 集 團 有 限 公 司 \*

**GRAND FIELD GROUP HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 115)**

## **ANNOUNCEMENT RESULTS OF THE INTERNAL CONTROL REVIEW**

### **INTRODUCTION**

Reference is made to the announcement of Grand Field Group Holdings Limited (the “**Company**”) dated 23 August 2013 (the “**Announcement**”) in relation to the results of the internal control review conducted by LK Risk Services Limited (“**LK Risk**”). Capitalized terms used in this announcement shall have the same meanings as those defined in the Announcement unless otherwise defined herein.

The Directors, with an aim to assess whether there exists any potential significant risks, deficiencies and areas for possible improvement in connection with the Company’s existing internal control systems and to ensure the Company has adopted adequate financial reporting procedures, internal control environment and corporate governance policies to meet its obligation under the Listing Rules, has engaged LK Risk to conduct an independent review of procedures, systems and controls for the Company and its key operating subsidiaries (the “**Internal Control Review**”). LK Risk is a firm rendering internal control review services, which has been previously engaged in various internal control review projects for several listed companies in Hong Kong.

\* *For identification purposes only*

## **SCOPE OF THE INTERNAL CONTROL REVIEW**

LK Risk has conducted a review on (i) the existing control environment and procedures of the Group; and (ii) the control procedures and environments on the financial reporting systems of the Company, inter alia, revenue and receipt cycle, investment properties cycle, expenditure cycle, cash management and treasury cycle, inventory cycle, property, plant and equipment cycle, payroll cycle and financial reporting cycle, and make recommendations to the Company for its enhancement if necessary.

## **FINDINGS, REMEDIAL ACTIONS TAKEN BY THE GROUP AND RESULTS OF THE INTERNAL CONTROL REVIEW**

LK Risk has issued an internal control report to the Company on 4 October 2013 in relation to the Internal Control Review (the “**First Review Report**”). Afterwards, LK Risk has conducted a follow-up review on the First Review Report (the “**Follow-Up Review**”) to assess whether the recommendations in the First Review Report (the “**Recommendations**”) have been adopted or whether the Group has adopted other measures to remedy those findings as mentioned in the First Review Report. LK Risk has issued a follow-up review report (the “**Follow-Up Review Report**”) on 31 October 2013.

The Directors have summarised (i) certain significant findings and material deficiencies found in the First Review Report; and (ii) approaches and measures adopted by the Group and results of the Follow-Up Review Report in the following table.

### **(a) Control environment, risk assessment, control activities, information and communication and monitoring**

<b>Number</b>	<b>Findings and material deficiencies</b>	<b>Key approaches and measures adopted by the Group</b>
1.	The Group should prepare a more comprehensive operation manual and written policies and procedures to cover all operating cycles of the Group.	The Group has updated its existing operation manual with effect from 31 October 2013.

<b>Number</b>	<b>Findings and material deficiencies</b>	<b>Key approaches and measures adopted by the Group</b>
2.	The Group should establish internal audit charter to define and identify the mission, objective, scope, authority and accountability of the internal audit function.	Instead of establishing internal audit department, the Group will consider to engage external professional parties to check the effectiveness of the internal control systems of the Group on yearly basis.
3.	The Group should establish formal whistle-blowing policies and procedures to report and handle internal control deficiencies.	The Group has established whistle-blowing policies and procedures on 31 October 2013.

**(b) Internal control systems by business cycles**

<b>Business cycles</b>	<b>Findings and material deficiencies</b>	<b>Key approaches and measures adopted by the Group</b>
Revenue and receipt cycle	<ul style="list-style-type: none"> <li>Lack of financial reporting checklist to facilitate incoming staff to perform his/her duties effectively.</li> </ul>	<ul style="list-style-type: none"> <li>Financial reporting checklist has been established on 31 October 2013.</li> </ul>
Investment properties cycle	<ul style="list-style-type: none"> <li>The written policies in the existing operation manual of the Company is not comprehensive enough to mention including but not limited to (i) rental determination; (ii) tenant screening process; (iii) tenancy agreement approval procedures; (iv) tenant management; and (v) collection of receivables procedures.</li> <li>Ineffective documentation system to keep different kinds of documents and the working papers on control activities in connection with the leasing business of the Group.</li> </ul>	<ul style="list-style-type: none"> <li>The Group has modified relevant policies and procedures and included in the operation manual on 31 October 2013.</li> <li>The Group has modified its file management policy and documentation systems and adopted on 31 October 2013.</li> </ul>

Business cycles	Findings and material deficiencies	Key approaches and measures adopted by the Group
Expenditure cycle	<ul style="list-style-type: none"> <li>• Lack of “know your client” policies and procedures before letting properties to tenants.</li> <li>• Certain inconsistency found between operation manual and actual procedures.</li> <li>• Authorisation has not been properly documented before payment of expenses and disbursement.</li> </ul>	<ul style="list-style-type: none"> <li>• Tenant information sheet has been established on 31 October 2013 so as to document background information of the tenant.</li> <li>• In addition to current review procedures conducted by senior management of the Company, the Group will consider to engage external professional parties to check the effectiveness of the internal control systems of the Group on yearly basis.</li> <li>• Proper authorization procedures have been documented with regular review by the management.</li> </ul>
Cash management and treasury cycle	<ul style="list-style-type: none"> <li>• Lack of comprehensive written policy for cash management and treasury cycle to cover areas, inter alia, management of budget, management of loan and borrowing, management of petty cash and management of debt collection arrangement and staff advance.</li> <li>• Lack of comprehensive control environment and procedures for bank account which held by cashier/ executive Director of the Company.</li> <li>• Certain inconsistency found between operation manual and actual procedures.</li> </ul>	<ul style="list-style-type: none"> <li>• The Group has established a set of comprehensive policies and procedures for cash management and treasury cycle on 31 October 2013.</li> <li>• Bank account held by cashier has been closed.</li> <li>• The Company has adopted the policies and procedures for bank account held by executive Director which was approved by the board of directors of the Company so as to minimize the risk for misappropriation of assets. Moreover, the board of directors of the Company will reassess the risk annually.</li> <li>• In addition to current review procedures conducted by senior management of the Company, the Group will consider to engage external professional parties to check the effectiveness of the internal control systems of the Group on yearly basis.</li> </ul>

Business cycles	Findings and material deficiencies	Key approaches and measures adopted by the Group
Financial reporting cycle	<ul style="list-style-type: none"> <li data-bbox="453 322 874 546">• Ineffective documentation system to keep different kinds of documents and the working papers on control activities in connection with cash management and intra-group fund transfer.</li> <li data-bbox="453 600 874 831">• Lack of comprehensive written policy for financial reporting cycle to cover areas, inter alia, preparation and analysis of budget, monthly closing, consolidation and back up financial information.</li> <li data-bbox="453 884 874 987">• Vouchers and monthly financial statements were prepared without proper authorization.</li> </ul>	<ul style="list-style-type: none"> <li data-bbox="911 322 1447 465">• The Group has modified its file management policy for documenting control activities on intra-group fund transfer and adopted on 31 October 2013.</li> <li data-bbox="911 600 1447 667">• Comprehensive policies and procedures has been established on 31 October 2013.</li> <li data-bbox="911 884 1447 987">• Vouchers entries and monthly financial statements are made with proper authorization with a review by senior accounting staff.</li> </ul>

The Directors considers that the above significant findings and deficiencies identified by LK Risk represents areas of improvement and raised an opportunity for the Group to improve its internal control. After the Follow-Up Review, LK Risk concluded that the Company has adopted the Recommendations or has adopted other measures to remedy those findings as mentioned in the First Review Report. LK Risk did not aware there were other material deficiencies regarding the procedures, systems and controls of the Group during the Follow-Up Review. LK Risk is satisfied that the management of the Company has adopted Recommendations or has adopted other measures to remedy those findings as mentioned in the First Review Report.

In light of the above, the Directors are of the view that apart from the following derivation, the Group has established adequate internal control policies and procedures, in all material respects, which are in compliance with the requirement under the Code of Corporate Governance Practices as set out in Appendix 14 of the Listing Rules (“CG Code”) and the Group maintains an adequate and effective internal control system and no other material control deficiency has been identified.

- (i) According to the code provision A.2.1 of CG Code, the roles of the chairman (the “**Chairman**”) and the chief executive officer (the “**CEO**”) should be separate and should not be performed by the same individual. As at the date of this announcement, the role of the Chairman is performed by Mr. Ma Xuemian but the office of the CEO is vacated. However, the board of directors of the Company will keep reviewing the current structure of the Board from time to time and should candidate with suitable knowledge, skill and experience be identified, the Company will make appointment to fill the post as appropriate.
- (ii) According to code provision A.1.8 of the CG Code, the Company should arrange appropriate insurance cover in respect of legal action against the Directors of the Company. The Company has been looking for appropriate insurance covering the liabilities of the Directors that may arise out of the corporate activities, but has yet been confirmed by any insurance company for such insurance arrangement. However, the Company keeps looking for an appropriate insurance at the Company’s best efforts.

By Order of the Board  
**Grand Field Group Holdings Limited**  
**Ma Xuemian**  
*Chairman*

Hong Kong, 31 October, 2013

*As at the date of this announcement, the board of Directors comprises four executive Directors, namely Mr. Ma Xuemian, Mr. Kwok Siu Bun, Ms. Chow Kwai Wa, Anne, Ms. Kwok Siu Wa, Alison and; two non-executive Directors, namely Mr. Lim Francis and Mr. Chen Mudong (with Mr. Lim Francis as alternate); and three independent non-executive Directors, namely Mr. David Chi-ping Chow (with Mr. Lim Francis as alternate), Mr. Liu Chaodong and Ms. Chui Wai Hung.*