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**WEALTHMARK INTERNATIONAL (HOLDINGS) LIMITED**  
**和寶國際控股有限公司**

*(incorporated in Cayman Islands with limited liability)*

**(Stock Code: 39)**

**ANNOUNCEMENT**

The Company refers to its announcement dated 22nd February, 2005 and wishes to update Shareholders on the status of the Review and the findings of HLB Hodgson Impey Cheng on the internal controls of the Group, their recommendation and the implementation of the Manual.

The Company refers to its announcement dated 22nd February, 2005 and wishes to update Shareholders on the status of the Inquiry and Review and the findings of HLB Hodgson Impey Cheng (“HLB”) on the internal controls of the Group, their recommendation and the implementation of the Internal Control and Accounting Manual (the “Manual”).

Capitalised terms used herein and not defined shall have the same meanings as in the Company’s announcement dated 22nd February, 2005 unless the context otherwise requires.

As announced on 22nd February, 2005, the Company had prepared the Manual for adoption by the Group. Having reviewed the Manual, the management of the Company were of the opinion that the adoption of the Manual would strengthen the internal control system of the Group.

**SUMMARY OF ITS PRELIMINARY FINDINGS AND RECOMMENDATIONS**

The Independent Committee has had (i) discussions with HLB in relation to their preliminary comments and recommendations on the internal control systems of the Group and the Manual; and (ii) internal discussions on how to implement HLB’s recommendations and devise new measures to strengthen the internal control system of the Group. A summary extracting the points issued by HLB in their preliminary findings for the period covered from 24 January 2005 to 25 February 2005 is set out below for the information of the Shareholders and investors of the Group:

## **I. Effective System of Internal Control**

### *Insufficient control in segregation of duties over physical security of cash in Hui Zhou factory*

The factory at Hui Zhou maintained a high balance of cash on hand in a safe as most transactions were settled in cash.

#### *Recommendations for Rectification of Deficiency*

HLB recommends that the keys for the safe be separately kept by two reliable staff. Except for the cashier, the executive director in the Hui Zhou Factory should keep one key. This would ensure that each time the safe is opened with proper authorisation from a director. HLB also strongly encourages the Company to require that payments should be settled more often by cheques or auto-payments to minimize the level of cash kept in the safe and thus the risk of misappropriation.

## **II. Cash Cycle**

### *Disbursements from bank accounts*

#### *Insufficient control in authorization of cheques*

There is a lack of control in cheque issuances. HLB recommends that the Company should establish a monetary level control whereby two signatures be required for paying out disbursements to anyone in excess of such monetary level. Previously, all cheque payments were authorised by either of the two executive directors, namely Mr. Wong Chor Wo and Ms. Rosita Andres in any amounts.

#### *Recommendations for Rectification of Deficiency*

In order to enhance the control in cheque authorisation procedures, HLB recommends that at least 2 signatures be required to approve any issuance of cheques with amounts beyond certain preset limits.

#### *Establishment of imprest account*

The Company's subsidiary in Hui Zhou did not maintain an imprest account system.

#### *Recommendations for Rectification of Deficiency*

Management in the Hui Zhou Factory should establish an imprest account for controlling and maintaining adequate cash level to satisfy the factory's daily operation. For example, once the cash balance falls below to a certain preset level, the directors should immediately request funds to be transferred from the Hong Kong office. The benefit of such control procedure enables the Company to efficiently and effectively monitor monthly cash outflows and to alert the management should there be excessive expenditures on specific activities.

### **III. Revenue Cycle**

#### ***Credit Policies***

##### *Establishment of formal credit policy*

The Company has not established a formal trading and credit policy, in particular, assessment of credit limits on individual client accounts were apparently not based on the financial situation of the client.

##### *Recommendations for Rectification of Deficiency*

In order to enhance credit control and risk management, the Company should establish and maintain an effective credit rating system to evaluate each client's creditworthiness. The Company should specify trading and position limits for each client based on their respective creditworthiness and trading needs and enforce the set limits.

Appropriate trading and credit limits should be set for each client. Clients' information such as their financial positions and historic background and information must be obtained for the approval of each client's credit limits.

Trading and credit limits should be granted and trading amounts exceeding the pre-set level should not be allowed without senior management approval. Trading and credit limits should be reviewed annually by senior management or the credit department's personnel after careful consideration and assessment of each client's trading frequency and past payment record.

### **IV. Inventory Cycle**

#### *Improper application control procedures in inventory*

The stock records were not properly recorded into the general ledger for the year ended 31 December 2004 and month ended 31 January 2005.

The Bookkeeper only recorded the amount of purchase of raw materials. The stock ledger figure remained unchanged throughout the year ended 31 December 2004. No allocation of labour costs and overhead costs were considered in the purchase. The Company only adjusted the stock and cost of sales twice a year after the stocktakes at interim and final results.

#### *Recommendations for Rectification of Deficiency*

The Company should continuously keep track of the stock movements and update its accounting records. Formal stocktaking should be arranged at least monthly or quarterly. Results of stocktakings should be reconciled to the accounting records in order to ensure the accuracy of inventory records.

Management should assign an experienced accountant in the PRC to prepare and supervise all the accounting records and to ensure that entries are being input properly (especially the area of stock ledger). The accountant should prepare proper management accounts in accordance with Hong Kong Accounting Standards to enable senior management to monitor the level of inventories.

The Company did not prepare any budget analysis over the Gross Profit ratio on each sale transaction or for each product line. The Company should establish proper procedures to allow production costs to be allocated for each production task. As no adequate procedures were adopted to accurately record the labour hours, materials and overhead spent on individual production, the pricing of the products could be affected.

#### **Inadequate control on stock records in Warehouse located in Hong Kong**

There were no proper records of stock in and out of the warehouse. The warehouse personnel act as both the security guard and goods receiving staff.

#### *Recommendations for Rectification of Deficiency*

HLB recommends that proper stock in and out records should be properly maintained by the staff in the warehouse and that separate security guard be employed to check on all stock moving in and out of the warehouse.

### **V. Inventory Obsolescence**

#### *Establishment of policy for inventory obsolescence*

There was no formal policy implemented for evaluating inventory, material, component parts, and finished goods for obsolescence.

#### *Recommendations for Rectification of Deficiency*

During regular stock takings, the management should identify all slow moving stocks being recorded. Provision for impairment and obsolescence on stock should be made with the approval of the financial controller upon identification of the obsolete stocks.

### **VI. Purchase Cycle**

#### *Placement of Orders*

#### *Inadequate control in authorisation*

Inadequate authorisation and insufficient supervision by appropriate personnel on purchase of raw material were noted. Purchase orders require the sole initiation and execution by the Purchase Officer.

### *Recommendations for Rectification of Deficiency*

HLB suggests that a more senior level of personnel should authorise the purchase transactions instead of relying solely on the Purchase Officer. The senior personnel should also review the details on each purchase transaction as to whether or not the purchase quotation price is fair and on an arms' length basis; whether or not the purchase quality is adequate and whether or not the purchase quantities are accurate as per the purchase order.

## **VII. Management Letter Point for the Year ended 31 December 2003**

Apart from all the cycles mentioned above, HLB also noted that the Company has not formally documented the written personnel policies and procedures. The Company's auditors have stated this weakness in their Management letter for the year ended 31 December 2003, details of which are shown as follows:

### ***Personnel Policies and Procedures***

#### *Observation*

The Group has no formally documented, written personnel policies and procedures. Such policies help eliminate potential conflicts between employers and employees.

#### *Recommendation*

It is recommended that a personnel policy manual be established that is tailored to fit the Group's staff and operational requirements.

The main purpose of a personnel policy manual is to present an employer's requirements for standards, ethics and policies in the workplace. It is useful to both the employer and employees by providing:

- A standard for fair and consistent treatment for all employees;
- Advising employees of corporate guidelines, benefits and administrative procedures;
- Defining management expectations of employee responsibilities; and
- Detailing expectations of equality, privacy, safety and security.

It is strongly recommended that the Company should implement the recommended procedures as suggested by the Company's auditors for its internal control system on personnel and employees.

Apart from the aforementioned, there was one more weakness.

## ***Budgeting***

### *Observation*

The Group does not prepare financial budgets on a regular basis and has no formal budgeting processes or procedures.

The Company is still lacking proper and formal budgeting processes or procedures, especially on general ledger account for Inventory and Cost of Sales. Therefore, it is strongly recommended that a systematic budgeting procedure be promptly adopted by the Company.

## **VIII. Misappropriation**

As at the date of this announcement, no evidence of misappropriation of funds has yet been found by HLB based on the scope of work as detailed in the Company's announcement dated 22nd February, 2005.

## **RESPONSE TO THE PRELIMINARY FINDINGS**

The Company stresses that the above summary represents HLB's preliminary findings during their review period and points raised therefrom are not exhaustive.

The Independent Committee has considered, discussed and accepted the findings and recommendation proposed by HLB. The Independent Committee will discuss these matters with the Board and advise the Board to implement the suggestions and recommendations made by HLB. The Directors on the Independent Committee believe that most of the internal control weaknesses identified in the Report can be rectified through the adoption and execution of the revised Manual based on HLB's recommendations as well as regular review and monitoring of the internal control systems in the future.

The executive Directors have, in principle, agreed to implement the reasonable proposals of the Independent Committee to closely monitor the internal control system so as to ensure that the revised Manual is strictly followed. Regular management meetings will be held to review the strict compliance with and implementation of the internal control system. The Independent Committee will semi-annually discuss and review, among other matters, the internal control system with the executive Directors and where appropriate, assist in devising measures to strengthen in the internal control system of the Group from time to time.

It is currently anticipated that a 3 month implementation/rectification period be in place with a further revisiting with HLB of the steps taken by the Company thereafterwards.

## **INQUIRY AND REVIEW**

With regards to the Inquiry and Review, these are still ongoing as the books and records of the Company are still in the confines of the ICAC. The Inquiry as to whether proper books and accounts are kept is expected to take another 2 months. A further announcement will be made as and when applicable in respect of the status and findings of the Inquiry and Review. At such time, the Company will announce the corporate governance arrangements in place and whether these and the financial control systems adopted are adequate.

## **CORPORATE GOVERNANCE**

With regards to ensuring good corporate governance by the Company, the Company has requested the assistance of its legal advisers to assist it in adopting the Code on the Governance Practice issued by the Stock Exchange and which became effective on 1st January, 2005 and the implementation of such Code.

Made by the order of the Board of Wealthmark International (Holdings) Limited, the directors of which individually and jointly accept responsibility of the accuracy of this announcement.

By Order of the Board  
**Wealthmark International (Holdings) Limited**  
**Tse Chung Sing**  
*Director*

Hong Kong, 6 May, 2005

*As at the date hereof, the executive Directors are Mr. Wong Chor Sang, Mr. Danny Kwok Kee Ho, Mr. Chan Wai Kin, Benito and Mr. Tse Chung Sing; and the independent non-executive Directors are Mr. Chan Sheung Kwan, Mr. Yang Xi and Mr. Yue Kwai Wa, Ken.*

Please also refer to the published version of this announcement in China Daily.