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## AUSNUTRIA DAIRY CORPORATION LTD

澳優乳業股份有限公司

*(Incorporated in the Cayman Islands with limited liability)*

(Stock code: 1717)

### COMPLETION OF THE INTERNAL CONTROL REVIEW

#### Financial Adviser to the Company



**ASIAN CAPITAL**  
(CORPORATE FINANCE) LIMITED  
卓亞(企業融資)有限公司

References are made to the announcements of the Company dated 18 August 2013 and 20 March 2014 (the “**Announcements**”). Capitalised terms used in this announcement shall have the same meanings as those defined in the Announcements unless otherwise specified.

As stated in the announcement dated 20 March 2014, the Company has engaged PKF Consulting Inc. (“**PKF**”) to conduct a comprehensive review of the Group’s internal control systems, including the Group’s internal control components which are not related to the Unresolved Issues and not covered by the 2013 Internal Control Review carried out by PKF.

PKF has on 27 June 2014 issued the report on internal control to the Company. The Company would like to advise that this further internal control review has been completed and the findings of the review are set out below.

#### THE INTERNAL CONTROL REVIEW

The Company engaged PKF to review the effectiveness of the Group’s internal control as at 31 December 2013, based on the criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“**COSO**”).

PKF opined that, after completing their review on the Group’s internal control, the Group maintained, in all material respects, effective internal control as at 31 December 2013, based on the criteria established in Internal Control – Integrated Framework (1992) issued by the COSO. PKF also considered that the Company has put in place effective internal control to meet the obligations of the Listing Rules.

Without qualifying their opinion, PKF has identified four medium risk deficiencies in internal control, which is less severe than material weaknesses, but yet important enough to merit attention by the management. PKF has also assessed the relevant rectification plans carried out by the Group and consider that the rectification plans properly address these medium risk deficiencies if the rectification plans are implemented as described.

These medium risk deficiencies are set out below:

### **1. Comprehensive review on existing suppliers is not a standard procedure**

In conducting their review, PKF noted that Lyempf Kampen B.V. (“**Lyempf**”), a Netherland-based subsidiary of the Group, did not carry out a comprehensive evaluation (including quality of goods, timeliness of delivery, customer service, etc.) of suppliers. It is recommended that Lyempf should conduct periodical evaluation on significant suppliers, and such periodic evaluation should be included as part of the requisite procedures in future.

PKF considered that without periodic comprehensive review on the existing suppliers:–

- (a) the prices of goods/services offered by the existing suppliers may not be competitive. There may be suppliers available in the market, which offer more competitive price and/or better quality of services than the existing suppliers do; and
- (b) overall performance including timely delivery of goods and quality of goods cannot be communicated to suppliers for improvement in time.

A written procedure on comprehensive evaluation of suppliers has been adopted by Lyempf in April 2014 to require periodically (at least annually) evaluation of existing suppliers and evaluation of new suppliers prior to accepting these new suppliers.

### **2. Procedures for issuing credit notes are not formalized**

PKF noted that Lyempf did not have proper authorisation procedures in the issuance of credit notes in 2013. It is recommended that formal application and authorization procedures for issuance of credit notes should be established.

PKF considered that issuing credit notes without proper approval may give rise to fraud and could be used to conceal loss/misappropriation of assets.

The management noted that the total amount of credit notes issued to third party customers by Lyempf in 2013 amounted to Euro 284,000 (equivalent to approximately HK\$3,041,000) in aggregate, which represents 1.3% and considers that it constituted a negligible percentage of total sales to the third parties by Lyempf and the Group, respectively. Nevertheless, in order to strengthen the controls on the issuance of credit notes, other than the existing review and approval by the finance manager of Lyempf, all credit notes are required to be reviewed and approved by the managing director of Lyempf before it can be issued to customers with effect from January 2014.

### 3. **Electronic files are not password-protected**

PKF noted that some of the confidential electronic files (including those containing confidential remuneration and financial information) of the Company, Ausnutria Dairy (China) Co., Ltd and Ausnutria Hyproca B.V. are not password-protected. It is recommended that electronic files containing confidential information should be restricted and protected from unauthorised access and changes.

PKF considered that such deficiency may cause leakage of confidential information relating the Group's employees and financial performance and occurrence of errors due to intentional or unintentional changes to the formulas in spreadsheets.

While it has always been the Company's policy to require all the employees' computers to be password protected, in order to further strengthen the controls to avoid unauthorised access to sensitive and/or confidential information or the alterations of formulae on important worksheet (including but not limited to consolidation and payroll) (the "**Important Worksheets**"), the Group has on 1 June 2014, revised the information technology (the "**IT**") policies to require all Important Worksheets be password protected. Besides, with effect from 1 June 2014, the Company's internal audit department will be responsible to test check the logic and accuracy of formulae in the Important Worksheets on a quarterly basis.

### 4. **IT procedures are not formalised and sufficient**

PKF observed that three of the Group's subsidiaries, namely Lyempf, Lypack Leeuwarden B.V. and Hyproca Dairy B.V., did not have formal and sufficient IT procedures on the maintenance of enterprise resource planning ("**ERP**") access right application and approval documents, ERP systems access review, password management, application change management and data back-up and restoration. It is recommended that the aforementioned IT policies should be formalised and the corresponding procedures be performed accordingly.

PKF considered that this deficiency may pose potential risk of unauthorized access to the system due to delay in removing access right of terminated/resigned employees in ERP system. Further, without detailed IT procedures, any irregular operation in IT systems may affect integrity of information and security of data.

During the course of management assessment of the internal control system of the Group as conducted in 2014, the management has noticed the above deficiencies. In June 2014, the Group has already formalised the IT policies which have incorporated the recommendations as set out above, and has circulated the same to the relevant employees. Besides, the Group has conducted a review of the access log and change log reports for the year ended 31 December 2013 and up to the date of the internal control report and no unauthorised access to the ERP system is noted. In order to ensure timely removal of terminated/resigned employees from access to the ERP system, the resignation form (which is required to be completed by all resigning/terminating staff) is required to be checked and endorsed by the ICT Manager with effect from 1 June 2014 to ensure timely termination of the access rights of the terminating/resigning employees.

The Group concurred with the findings of the internal control review and follow-up actions will be taken to improve the overall internal control of the Group in order to ensure that the Shareholders' investment and the Group's assets are properly safeguarded.

#### **CONTINUING SUSPENSION OF TRADING**

At the Company's request, trading in the Shares was suspended from 9:00 a.m. on 29 March 2012, and will remain suspended until further notice.

By order of the Board  
**Ausnutria Dairy Corporation Ltd.**  
**Yan Weibin**  
*Chairman*

Changsha City, the People's Republic of China, 27 June 2014

*As at the date of this announcement, the Board comprises three executive directors, namely Mr. Yan Weibin (Chairman), Mr. Bartle van der Meer (Chief Executive Officer) and Ms. Ng Siu Hung, and three independent non-executive directors, namely Mr. Qiu Weifa, Mr. Jason Wan and Mr. Chan Yuk Tong.*