

IMPORTANT

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Ezcom Holdings Limited, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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EZCOM HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

COMPLETION OF SYSTEM REVIEW

30th December, 2003

DEFINITIONS

In this circular, the following expressions have the following meanings, unless the context requires otherwise:

“Accountants”	the independent firm of accountants engaged to conduct the Review
“Board”	the board of Directors
“Circular”	the Company’s circular dated 23rd June, 2003 in relation to the Future Circle Transaction
“Companies Act”	the Companies Act 1981 of Bermuda
“Company”	Ezcom Holdings Limited, a company incorporated in Bermuda with limited liability, the securities of which are listed on the Stock Exchange
“Directors”	the directors of the Company
“Ezcom Tech”	Ezcom Technology Limited, a company incorporated in Hong Kong under the Companies Ordinance with limited liability on 3rd August, 1995 and an indirect subsidiary of the Company
“Future Circle Transaction”	the transaction as contemplated under the Future Circle Option Agreement
“Future Circle”	Future Circle Holdings Limited, a company incorporated in the British Virgin Islands with limited liability on 12th June, 2001
“Future Circle Option Agreement”	the option agreement dated 4th February, 2002 entered into between the Company and Mr. Li in relation to the grant of an option to the Company to purchase Mr. Li’s remaining one share in Future Circle
“Group”	the Company and its subsidiaries
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars
“June Announcement”	the Company’s announcement dated 20th June, 2003 in relation to the Future Circle Transaction
“Latest Practicable Date”	19th December, 2003, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“SGM”	a special general meeting on 9th July, 2003 of the Shareholders which was convened to consider, amongst others things, the entering into of the Future Circle Option Agreement
“Shareholders”	the shareholders of the Company
“Shares”	ordinary shares of the Company of HK\$0.01 each
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiaries”	a company which is for the time being and from time to time a subsidiary (within the meaning of section 2 of the Companies Ordinance Chapter 32) of the Company
“%”	per cent.

LETTER FROM THE BOARD

EZCOM
BRING TECHNOLOGY TO LIFE
EZCOM HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

Executive Directors:

Mr. Kok Kin Hok (*Chairman*)

Mr. Lam Bing Sum

Mr. Lian Song Qing

Non-Executive Director:

Mr. Hou Ziqiang

Independent Non-executive Directors:

Dr. Yang Shiqin

Dr. Li Jianhua

Mr. Wang Shunian

Registered Office:

Clarendon House

Church Street

Hamilton HM 11

Bermuda

Principal Place of Business:

Unit 1C & 1D, 14th Floor

Tower 2, Admiralty Centre

18 Harcourt Road

Hong Kong

30th December, 2003

To the Shareholders

Dear Sir or Madam,

COMPLETION OF SYSTEM REVIEW

INTRODUCTION

The Company's SGM on 9th July, 2003 was adjourned until further notice by the Company. The said adjournment was made in accordance with the Companies Act and its bye-laws. The reason for the adjournment was that the Company had discovered that the unaudited profit after tax figure of Ezcom Tech for the seven months ended 31st October, 2002 of "HK\$67.7 million" (the "Misstated Figure") as stated at line 8 of paragraph 2 of the June Announcement and at line 15 of paragraph 2 on page 9 of the Circular was incorrectly stated. The correct figure should be "HK\$33.3 million".

The system review mentioned in the Company's announcement dated 18th August, 2003 has been completed. A summary of the scope, key findings and recommendations noted in the Review (as defined below) and details of the events leading to the production of the Misstated Figure and type of work undertaken by the Directors, financial advisers and independent financial adviser in relation to the preparation of the circular are set out in this circular.

As the cause of the Misstated Figure has been identified as a human input error and additional preventive measures have been and will be implemented, the Directors (including the independent non-executive Directors) and the audit committee of the Company are of the view that this is an isolated incident, the risk of a similar error recurring will be reduced because preventive measures (as detailed in the section headed "Company's Actions") have been implemented by the Company and that the Company's financial reporting system remains reliable.

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MISSTATED FIGURE

The cause of the Misstated Figure may be explained by an account of events leading to its production. In summary, the former accounting manager of the Company was responsible for the preparation of the April 2002 profit and loss account report of Ezcom Tech for the purpose of inclusion into the Circular. In order for a report of an accounting period to be generated, the beginning and ending dates of the accounting period must be input into the system. The Company and the executive and independent non-executive Directors are of the view that an incorrect accounting period was inadvertently input for the generation of the report, which has resulted in the production of the Misstated Figure. Discussions were also held between the former accounting manager and the firm of Accountants for the Review (as explained in more details below) independently in July 2003 during the first stage of the Review. When preparing the information to be disclosed in the Circular, the Directors and financial advisers have checked information published in the Circular and relied on a profit and loss account report for the month April 2002 prepared by this former accounting manager containing the Misstated Figure, who has not made similar mistake before and after discussing with the management, the Directors relied on the information provided by the management including the former accounting manager and former financial controller. As no similar error has occurred before, the Directors had no reason to cast doubt over the quality of information provided by the management of the Company. Verification was carried out by the Directors through meetings with the management of the Company to discuss the information to be included in the June Announcement and the Circular but no error was found at that time. The financial advisers have advised the Company (which has acknowledged the receipt of such advice) to take all reasonable steps to ensure that the information published in the Circular and announcements relating to the acquisition of further equity interests in Future Circle Holdings Limited are true, accurate, complete and not misleading, and that no material information or facts have been omitted or withheld.

Meetings have been held between the Directors, and the management of the Company including the Company secretary and a director of the Company's subsidiary to discuss information provided by the management of the Company. When presenting information (including the April 2002 profit and loss account report of Ezcom Tech) to financial advisers and the independent financial adviser for their review, meetings were also held with the Company's management including the Company secretary, but not the Directors, to discuss the information to be disclosed in the Circular in order to ensure the quality of these information.

SYSTEM REVIEW

As stated in the Company's announcement dated 18th August, 2003, the Company on 14th August, 2003 commissioned the Accountants to conduct a review ("Review") of the reasons for the Misstated Figure and the internal control environment surrounding the relevant financial reporting processes of the Company. Control weaknesses were identified and recommendations were made to improve them. The Review covered the following areas:

1. Review of the Company's business process and application controls over certain aspects of its accounting and financial reporting function, including the adequacy of data input/validation controls, audit trails, manual and automated control procedures, and the related underlying general IT controls environment; and

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2. Review of the financial reporting procedures that were used to generate unaudited profit figures included in circulars issued by the Company in years 2002 and 2003.

COMPANY'S ACTIONS

Having reviewed the Accountants' findings and recommendations (see Appendix I which contains an extract of the report by the Accountants), the Company in principle agrees with the findings and have taken the following actions:-

1. The Company has already performed monthly reconciliation procedures suggested by the independent firm of accountants with effect from the month end reporting of August 2003 with a view to develop and perform independent checking and reconciliation procedures over the system generated output, such as matching total monthly balances with the whole year balance, matching sub-ledger balance with total ledger balance, and will perform reasonableness checks and analytical reviews of key financial information by the Company's management (including Executive Directors) during the preparation of future circulars.
2. The Company has clearly defined and communicated procedures to the relevant Company personnel involved, including the existing accounting manager, financial controller and Mr. Lam Bing Sum and Mr. Lian Song Qing who are Executive Directors, so that all parties concerned understand their roles and responsibilities and have formally defined other checking procedures that will further enhance the overall accuracy and completeness of the financial information being disclosed.
3. The Company has activated the "Display Zero Balance" option as default in the Company's accounting system (the "System") and adopted the suggested system validation control in relation to the selection of appropriate database in the System, so that the manual errors could be more easily detected during the preparation of future Profit and Loss account reports.
4. The Company has improved the application and general IT controls environments supporting the financial reporting function, in particular, application functions of the system are granted on a need-to-have basis, audit trail are kept in the system on amendment to monthly closing stock value, formal user account maintenance procedure is established and password controls are enhanced.

In addition, the Company has put in place a special unit consisting of 4 personnel (which are Mr. Lam Bing Sum who is an executive Director, the Company secretary, accounting manager and Mr. Li Tung Wai who is a director of the Company's subsidiary, Ezcom Tech) responsible for quality control of financial information and all other information to be published by the Company in future public documents. This special unit will also review future transactions of the Company which may be classified as notifiable transactions under Chapter 14 of the Listing Rules. As the Company secretary and the director of the Company's subsidiary, Ezcom Tech, were involved in the preparation of the Circular, in order to strengthen quality control, an executive Director and a new accounting manager are added to this special unit. Meetings will also be held between this special unit and the Directors to discuss reasonableness checks and review procedures in a view to

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ensure quality of information to be disclosed in a public document. Personnel of this special unit will also have regular meetings to discuss and review the procedures which have been adopted to review the information provided to them by various departments of the Company and also discuss possible ways to improve.

As the cause of the Misstated Figure has been identified as a human input error and additional preventive measures have been implemented, the Directors (including the independent non-executive Directors) and the audit committee of the Company are of the view that this is an isolated incident, the risk of a similar error recurring has been reduced and that the Company's financial reporting system remains reliable, hence are of the view that the Company will be able to continue to discharge its obligations under the Listing Rules.

GENERAL

The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts, the omission of which would make any statement contained herein misleading.

Your attention is also drawn to the Appendix I of this circular.

The English text of this circular shall prevail over the Chinese text.

Yours faithfully,
By order of the Board
Ezcom Holdings Limited
Kok Kin Hok
Chairman

The findings of the Review and recommendations are extracted from the report by the Accountants below.

- 1. No evidence of performance of appropriate check and reconciliation procedures during the preparation of the Profit and Loss account report for the month of April 2002.**

Risk Level: High

Observation

Based on discussion with the vendor supporting the PollyPro 2000 Accounting System (the “System”) and review of the System’s operation manual, we understand that certain relevant system features and functions are as follows:

- The generation of financial reports via the System requires two key steps. Firstly, the user selects the desired company database from the System main screen. Secondly, the user is required to enter the printing criteria such as printing period, currency, department no., etc., via the “Print Trading & Profit & Loss Account” dialogue box.
- The System stores up to 24 months of transaction data in a single database. When a year-end process is triggered at any point of time within this 24-months period, the System would automatically archive the transaction data up to the year-end date into a separate database image. The current database image will contain the year-to-date transaction data starting from the first date after the previous year-end date.

Based on discussion with Company management, the vendor and review of information shown on the April 2002 Profit and Loss account report which Company management indicated was prepared by the former Accounting Manager for the purpose of the Circular, we understand that the following events occurred;

- As the year-end financial reporting process for the year ended 31st March, 2002 was completed in July 2002, the transaction data between 1st April, 2001 and 31st March, 2002 was archived to a separate database image.
- Following the database archive process and as the former Accounting Manager started the month-end financial reporting process for the month of April 2002, the following database image (containing 24 months of transaction data according to the System’s operation manual) would have been selected by the System:
 - Company ID: EZCOMTE
 - Company Name: EZCOM TECHNOLOGY LTD.

- Starting period: 01/04/2002
- Ending period: 31/03/2004
- Based on information (i.e., starting accounting period) shown on the April 2002 Profit and Loss account report prepared by the former Accounting Manager, the Company management is of the view that the former Accounting Manager incorrectly entered in the “Select Period: From” and “Select Period: To” fields of the dialogue box as “05/2001” and “04/2002” respectively. As such, the System generated the Profit and Loss account report for the period between 1st May, 2001 and 30th April, 2002, instead of the profit and Loss account for the single month of April 2002. As a consequence and based on our understanding of the aforementioned system features described by the vendor, the following two effects would have occurred:
 - The correct opening stock balance as at 1st April, 2002 was not retrieved; and
 - The opening stock balance as at 1st May, 2001 was not retrieved from the archived database image and as a result, it was determined by the System as zero.

Based on our understanding of the aforementioned past events, we have conducted a simulation (i.e., re-performance) of these events (or steps) to see whether the error and resulting effects could be repeated. Our simulation result indicated that the effect produced by the System as indicated above (i.e., the opening stock balance as at 1st April, 2002 was determined by the System as zero) and the resulting profit overstatement was consistent with the situation described by Company management. In particular, the resulting overstatement of profit after tax for the simulation was noted to be HK\$34.3M as indicated in the analysis table in our Phase 1 Report.

From the simulation and based on further enquiries of Company management, the new Accounting Manager, and the vendor, we noted the following:

- The System provides a preview function for users so that reports can be previewed on-screen before they are actually printed out through the printer;
- The accounting period (i.e., start and end dates) selected for the generation of the Profit and Loss account report are clearly shown on the printout of the Profit and Loss account report; and
- Certain reports were available from the System for reconciling the Profit and Loss account balances. For example, the “Trading & Profit & Loss A/C” report shows the profit and loss account balances at each month end, including the closing stock balance as at 31st March, 2002, which is the opening stock balance as at 1st April, 2002.

We understand that the former Accounting Manager and Financial Controller were responsible for the preparation of the Profit and Loss account report and the associated checking and reconciliation work performed respectively. It appears that the above system features and information was not utilised to perform appropriate checks and reconciliation procedures during the preparation of the Profit and Loss account report for the month of April 2002.

Recommendation

We recommend that independent checking and reconciliation procedures over the system generated output, for example, the accounting period printed on the Profit and Loss account report, be developed and performed to ensure that the correct accounting period is selected. In addition, the following reconciliation procedures and reports should be used and performed to minimise the chance of omission of the stock balances in the generation of Profit and Loss account report from the System:

(i) *“Trading & Profit & Loss A/C” reports:*

This report shows the P&L A/C balances by month for the whole year. The sum of the 12-month end balances should be reconciled to the year-end P&L A/C;

(ii) *Sales balances reconciliation:*

Reconciliation of the “Sales Analysis Report” (Sub-ledger balance) with the “Trading & Profit & Loss A/C” shown by the month, and reconciliation of the “Sales Analysis Report” (Sub-Ledger) with the “Sales Register”;

(iii) *Purchase balances reconciliation:*

Reconciliation of the “Vendor Purchase Invoice Summary” (Sub-ledger balance) with the “Trading & Profit & Loss A/C” shown by month; and

(iv) *Checking of Opening and Closing Stock Balance (sub-ledger balance):*

Through the “Setup Current Year Monthly Closing Stock (Finished Goods) Value” function, the “Closing Stock (Finished Goods)” report could be generated to check the closing stock balance each month.

We also recommend that Company management (e.g., Executive Directors) formally define other checking procedures that may further enhance the overall accuracy and completeness of the financial information being disclosed. More details are stated in Point 2.

2. **Procedures for the preparation and publication of the Circular and the roles and responsibilities for the relevant Company personnel involved in the procedures were not formally defined.**

Risk Level: High

Observation

We understand from Company management that the procedures for the preparation and publication of the Circular dated 23rd June, 2003 were as follows:

- The former Accounting Manager passed the system generated Profit and Loss account report (for the concerned period) to the former Financial Controller for his checking;
- The report was subsequently passed to the Company Secretary who was responsible for inserting the financial information from various sources including the system generated Profit and Loss account report into the original draft Circular that was prepared by the lawyer of the Company;
- The Company Secretary then obtained comments to the draft Circular through a series of verbal discussions with other Executive Directors of the Company and its financial advisers, and performed necessary revision and amendment to the draft Circular. During this process, no amendment was made to the financial information included in the draft Circular; and
- The final draft Circular was prepared by the printing company and faxed to the Company Secretary on 21st June, 2003. The draft Circular was approved by the Company Secretary (as evidenced through the signature of the Company Secretary) and faxed back to the printing company on 21st June, 2003 for bulk printing. The printed Circulares were then distributed to the respective parties directly from the printing company on 23rd June, 2003.

We have the following observations from our review of the aforementioned procedures:

- There were no formal procedures to explicitly define the roles and responsibilities of the relevant Company personnel involved in the Circular preparation and issuance process.
- As part of the draft Circular review process, no formal supporting documentation (as evidence of the checking and reconciliation procedures performed by the former Accounting Manager and Financial Controller to ensure the accuracy of the financial information included in the draft Circular) was requested by or provided to the Company Secretary and the Executive Directors.

Recommendation

Procedures should be clearly defined and communicated to the relevant Company personnel involved so that all parties concerned understand their roles and responsibilities they are undertaking. For example, the following should be considered:

- Reconciliation procedures should be defined, documented and strictly carried out by the Accounting Manager when preparing the source information for use of the Circular;
- The Financial Controller should perform detailed review over the information prepared by the Accounting Manager so that any exceptions and incorrectness can be detected earlier;
- In addition to the work carried out by the Accounting Manager and Financial Controller, the Executive Directors should also perform a reasonableness check and analytical review of financial information before it is released to the public;
- Proper sign-off should be required to evidence the performance of the checking procedures carried out and written approval should be required from the Executive Directors, etc.

3. System provided control function was not fully utilised to help minimise the risk of manual errors during the Profit and Loss account report generation process.

Risk Level: Medium

Observation

We noted at the time of our review that the System was suppressed from printing Profit and Loss items with zero balances on the Profit and Loss account report (by selecting “Display Zero Balance: No” via the “Print Trading & Profit & Loss Account” dialogue box). Subsequent discussion with the new Accounting Manager indicated that this function has been purposely set to “No” such that items with zero balances would not be printed on the Profit and Loss account report in order to enhance its presentation.

However, the implication is that the zero balance of the opening stock as at 1st April, 2002 (as described in our Phase I Report) was not printed on the Profit and Loss account report, and thus, the former Accounting Manager and Financial Controller were not able to easily detect the zero opening stock balance.

Recommendation

As users are allowed to suppress the System from printing items with zero balances on the financial reports by selecting “Display Zero Balance: No” via the “Print Trading & Profit & Loss Account” dialogue box, this may reduce the effectiveness of the reviewer to identify any exceptional items, for example, the zero balance of opening stock in the Profit and Loss account report.

We recommend that the “Display Zero Balance” option be set to “Yes” so that items with zero balances are also displayed and printed on the Profit and Loss account report.

In addition, a system validation control should also be built in so that after the user selected the desired company database from the System main screen, the user is restricted to enter a printing period that is not covered by the selected company database.

4. Application functions of the System should be granted on a need-to-have basis.

Risk Level: High

Observation

During our review of the user accounts in the System, we noted that a number of users were granted with access rights that are not related to their daily job responsibilities. For example, Sales Department and Shipping Department users were granted the following critical accounting functions:

- Setup Account Period: To allow user to define the accounting period;
- Setup Monthly Closing Stock Value: To allow user to adjust the monthly closing stock value; and
- Setup Costing Methods: To allow user to select the costing method.

Excessive access rights assigned to users who are not supposed to perform the above critical accounting setup functions increase the risk of unintentional alteration or manipulation of financial data processing, resulting in information inaccuracies that could impact the ability to derive accurate and correct financial information.

Recommendation

We recommend the following:

- Incompatible system functions granted to users should be segregated. In particular, Sales Department and Shipping Department users should not be granted with access to critical accounting functions; and
- User accounts should be regularly reviewed by management to ensure that application users are granted with appropriate access level to the System according to their job duties. All inappropriate access rights should be revoked.

5. Audit trail should be kept in the System on amendment to Monthly Closing Stock Value.

Risk Level: High

Observation

As noted in point 4 above, the system function to amend the monthly closing stock value was also available to the Accounting Department staff, Shipping Department Clerks and Sales Department Clerks. However, no audit mechanism was in place to keep track of any modification to the monthly closing stock value.

We understand that the monthly manual reconciliation procedure could be employed to detect any possible exceptions and errors in the monthly closing stock value balance. Since users other than the Accounting Department are also assigned the access rights to amend the monthly closing stock value, there is an increased risk that unauthorised input or adjustment made to the monthly closing stock value balance are not detected promptly and investigation to such incidence is rendered difficult.

Recommendation

Audit trail should be maintained to keep track of user activities on the monthly closing stock value and other critical accounting standing data such as chart of accounts and exchange rate table. The audit trail should also be reviewed periodically by management, e.g., Accounting Manager and/or Financial Controller. Any exceptions noted in the monitoring process should be properly documented and investigated immediately.

6. Formal user account maintenance procedure should be established.

Risk Level: High

Observation

We identified the following control deficiencies over the user accounts maintenance process:

- (a) There is no formal documentation of user account creation/modification/deletion by the individual user departments. This increases the risk of user accounts or access rights being inappropriately assigned to staff member without proper approval by management.
- (b) There is currently no formal periodical review of user accounts in the System and their associated access privileges. Without a periodic review process, there is an increased risk that users who no longer require access to the System, or staff whose responsibilities have changed over time, have not had their access privileges amended or revoked in a timely manner.

- (c) The following obsolete/inactive user accounts are maintained in the System:

User ID	Remarks
Edwin	The user “Edwin” left the Company on 19th July, 2003. However, his user account has not yet been removed as at 18th August, 2003.
Polly2	The user account “Polly2” was a supervisor account that was shared by all staff for daily operations; however, we understand that this user account is no longer required.

Recommendation

We recommend that:

- A formal procedure be established requiring the documentation of all user accounts creation/modification/deletion activities. Specifically the user ID and access privileges should be documented and formally approved by the relevant department head; and
- The user accounts in the System and their associated access privileges should be reviewed periodically.

7. Password controls over the System should be enhanced.

Risk Level: High

Observation

The following password control deficiencies were noted during our review:

- (a) The minimum password length is 3 characters long;
- (b) The System would not disable the user account after several failed logon attempts;
- (c) Users could concurrently logon the System at different terminals;
- (d) Change of user passwords can only be performed by the system administrator. Users are not allowed to change their password freely;
- (e) The following users are granted the “Setup User Password” function to change and view all the user passwords, which are stored as plain text, of the System;
 - Rebecca Tsang, Admin Manager;
 - Mr. TW Li, Executive Director; and

- Cecilia Choy, Accounts Clerk.

Inadequate password controls pose the following risks:

- (a) Passwords with short minimum length, unlimited log-on attempts, and static passwords encourage unauthorised access via password guessing;
- (b) Concurrent logon increases the risk of terminal being left unattended and abused by unauthorised parties; and
- (c) User passwords that are readable increase the risk of the user accounts being abused by unauthorised users.

Recommendation

We recommend management to implement the following measures to strengthen the password controls over the System:

- (a) The minimum password length should be assigned with 6 characters;
- (b) Password assigned should be alphanumeric characters, i.e. a combination of numbers and characters;
- (c) Management should raise the access control limitation with the vendor and evaluate the feasibility of including account lockout feature in the access control design. User account should be locked out after 3 failed logon attempts;
- (d) Management should discuss with the vendor the feasibility of disabling the concurrent access feature;
- (e) Management should discuss with the vendor the feasibility of enforcing periodic password change and allowing users to change their own password; and
- (f) User password should be encrypted.

8. Program change procedures should be enhanced.

Risk Level: Medium

Observation

Currently, change requests for the System are raised to the vendor verbally by Rebecca Tsang of the Administration Department or Clara Lam, the new Accounting Manager. We noted that neither the vendor nor the Company would maintain a change request log to keep track of the details of change requests raised and the follow-up status.

Without appropriate controls and procedures on change request management, change request may not be handled in a timely and orderly manner, or unauthorised changes may be made.

Recommendation

We recommend the following:

- (a) Change request log should be used to record any system change request and problems specifying, at a minimum, reported date, change request/problem nature, priority and person responsible;
- (b) Each change request should be properly approved by management before they are raised to the vendor; and
- (c) Change request log should be updated accordingly to reflect the current status.

9. Program object should be tested prior to the placement to the production environment.

Risk Level: Medium

Observation

After the vendor performed the requested program change, the compiled program object is stored in a CD-ROM and sent to the Company. The Accounting Manager is responsible for placing the compiled program object in the production environment. However, we noted that no testing was performed by the Company before the revised program is placed into the production environment. The current practice is that testing is performed after the revised program object is placed into the production environment.

Although the revised program object may have been tested by the vendor upon completion of the requested program amendment raised by the Company, users cannot be assured that the revised programs meet their original change requirement until the changes are properly tested by the users. If user testing is performed in the production environment, there is an increased risk that unexpected interruption to the production data may occur.

Recommendation

We recommend that user testing of the revised program objects that are provided by the vendor be performed in a separate environment before they are placed to the production environment and all testing documentation should be retained for future reference.

10. Backups should be placed in a secured location.

Risk Level: Medium

Observation

Currently, the databases of the System are backed up monthly to floppy disks by the Accounting Manager. We observed that these monthly backups are kept on the Accounting Manager's desk where most of the people can physically access.

If backup disks are not stored in a secured location, unauthorised access or damage by natural disaster such as fire might occur, and the backup data might be destroyed. This may hinder the effectiveness of the recovery procedure afterward.

Recommendation

We recommend that backups be stored in a locked cabinet or safe that can protect the backup disks from accidental or intentional damage. Offsite storage should also be considered by management to minimise the risk of losing all application programs and data during any unforeseen disaster at the office.

11. Physical security over the Windows 2000 Server should be improved.

Risk Level: Medium

Observation

We noted that the Windows 2000 server that is currently used to host the System is located in an open area within the Company's office, where all people can physically access. In addition, the Windows 2000 server is not covered by any protective equipment, such as server cabinet.

With the current arrangement, there is an increased risk that unintentional or intentional damage or tampering to the Windows 2000 server may occur and interrupt the normal business operations that are supported by the System.

Recommendation

To provide adequate physical security of the critical computer equipment such as the Windows 2000 server, we recommend that computer hardware and equipment be placed in a separate room. At a minimum, we recommend that the Windows 2000 server be placed inside a server cabinet so that it is not easily tampered or damaged by people and other events such as fire or water damage. In addition, the server cabinet door should be locked at all times.