



# Purchasing Policy

## Part One: General Principles

- 1 The purchasing of products and services is one of the important operation procedures in our company. In order to attain the maximum economic benefits for the company, management takes the responsibility to devise a comprehensive purchasing policy, and provide a fairness platform for all suppliers and contractors (generally named as “suppliers”) to process their quotations and tenders.
- 2 The Policy generally applies to all purchasing of non-product items and services, including but not limited to: raw material, fittings, finished products, items for daily operations (e.g. wrapping materials), sales activities, computer equipment and software/ system developments etc.
- 3 The Policy fundamentally applies to all countries/ regions/ districts/ cities of back offices, shops, manufacturers, factories and subsidiary companies. All Regional Executive Offices or Suppliers Management Sections must follow this Policy to devise detailed implementation procedures and submit to Group’s Executive Office for record. (All Regional Jewellery Management Centres in Mainland China have to submit their detailed implementation procedures to Suppliers Management Section-Executive Office-China Regional Management Centre for record.)
- 4 The company does not allow staff to receive any benefits (including commissions) from suppliers. All responsible purchasing departments should inform all suppliers about the related Policies in writing.
- 5 Management in business units must require staff who are responsible for purchasing to sign a commitment, in which purchasing staff promise to submit the Application Form to declare immediately any knowledge regarding familiar (or going to have) relationship between themselves or family members with suppliers (e.g. relatives, employers, shareholders, etc.) to the relevant Executive Offices/ Group Executive Office. Staff who do not take initiative to declare any potential conflict of interest breach company policy.
- 6 All employees who are involved in the purchasing procedures should avoid frequent participation in social activities or decline invitation to luxurious receptions being organised by suppliers. In neither work related nor private occasions, staff must obtain prior approval from relevant supervisors before joining such activities and avoid joining on their own.

## Part Two: Operation Instruction

### A. Purchasing Management Section

1. Executive Office and Suppliers Management Section should carry out the following responsibilities :
  - To devise purchasing management system applicable to their own region;
  - To devise the responsible staff list of purchasing section or team applicable to their own region;
  - To monitor the policy execution of each responsible purchasing section or team in the region;
  - To build up regular upwards reporting system.
  
2. The purchasing departments should carry out the following responsibilities :
  - To ensure the timely supply of goods/ services according to the approved purchasing requests of all user departments;
  - To acquire new qualified suppliers for maintaining the company's power of competition;
  - To build up a supplier management database, and have regular assessments to evaluate their quality of products and services, delivery schedule, price and reputation regularly;
  - To maximise the cost effectiveness and controlling the total purchasing cost.
  
3. The user departments should carry out the following responsibilities:
  - To submit approved purchasing requests, working schedule requirement and technical standards to the relevant purchasing department;
  - To be responsible for technical support during the contract period or production process;
  - To participate in the product receiving process;
  - To participate in the supplier's evaluation process.
  
4. In order to achieve a mutual supervising and balancing system during the purchasing process, the responsible purchasing department should maintain a segregation of incompatible duties, e.g. to assign different kinds of staff for choosing suppliers, evaluate quotations and tenders, issue purchasing orders, goods/services receiving and payment assessing, etc.

### B. Basic Requirements

1. Besides purchasing through petty cash, the price and quality of purchasing all products and services must be quoted among three different suppliers or more. For bulk/ annually purchase or high-value contracts, relevant purchasing departments must process the tender procedure and increase the size of participated vendor.
  
2. It is strictly prohibited to split a single purchasing order into two or more.

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3. Non-purchasing staff are not allowed to purchase products or discuss the purchasing details with the suppliers on their own. The financial/ accounting staff have the right to refuse the concerning payment and liable to report such case to the head of Executive Office.

### **C. Purchase Requisition**

1. User department should base on the actual necessity to fill in the “Purchasing Requisition Form”, submit it to the Purchasing Department after getting approval from relevant Department Head.
2. The responsible approver has to ensure such purchases are necessary, reality and within budget. The quality of purchased products or services and budget are righteous and proper for the business in needed.
3. Before process purchasing, the purchasing section have to check the content of all required Items/ details are completely listed on the Purchasing Requisition Form.
4. All purchase orders which are handled by the purchasing departments have to be supported by approved Purchasing Requisition Form, otherwise, the concerning payments will not be settled by relevant financial department.

### **D. Preparation for quotation/ tender**

1. While preparing the quotation and tender’s public offering document, the purchasing department has to state the specifications of the item clearly, and avoid naming the brand name and model number, or very unique specifications that are not common in the market. Whenever it is necessary to name a specific brand for reference, it should be stated with “or similar grading”.
2. If price is not the only considerable factor for selection of suppliers, the purchasing department has to state the score card clearly in the quotation or tender invitation in advance so that the interested suppliers can submit a competitive and qualitative quotation or tender.
3. The purchasing department must insert anti-corruption terms in quotation and tender’s invitation document.
4. Either the public offering is under quotation or tender, the purchasing department must provide adequate lead time for suppliers to prepare the relevant documents or samples; and must clearly state the submission methods and deadline.

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### **E. Suppliers Management**

1. The Purchasing Department must regularly update the “Approved Suppliers List” of frequently purchased products and services, and ensure that the list includes sufficient numbers of commodities and authorised suppliers for daily business operations.
2. It is required to state the source and background information of the new introduced supplier, and who will be assessed by auditor to ensure no potential conflict of interest with existing purchasers.
3. The purchasing section must cross check on the product and service qualities of a new approved supplier, conduct a site visit (if applicable) or set a trial cooperation according to the needs of the user department.
4. The Purchasing Department should state the vendor’s assessment and termination standards through a notification letter to all new suppliers and ensure that is conducted on a fair and publicity basis.
5. On a fairness ground, the Purchasing Department should base on the “Approved Suppliers List” to invite suppliers for all tender or quotation submissions or refer to above point 3.

### **F. Collection of Quotation/ Tender**

1. The Purchasing Department should make sure that no one can open/read quotations or tenders before the deadline. Security procedures have to be implemented to prohibit anyone from modifying any information of the quotation or tender. These documents can only be opened by the assigned departments, with certain number of staff from relevant positions to witness the opening.

### **G. Quotation/ Tender Appraisal**

1. If price is not the only considerable factor, the “Two Envelop Strategy” should be adopted (tenderers are requested to separate and insert their price and technical proposals into two envelopes), technical proposal must be reviewed prior to the price proposal.
2. For high-value purchase project, or main goods/ service’s specification are involved subjective factors, the Purchasing Section should set up an Appraisal Committee (comprised of representatives from the user department, the Purchasing Section and relevant technical staff) to assess the quotation/ tender.
3. If the price at lowest bid or the technical ranking at highest bid is not selected, reasons and evidences have to be specified.

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## **H. Management of Purchasing Contract**

1. The company/ related staff must devise a purchasing contract according to the approved supplier, purchasing method, agreed price etc. to state clearly the rules/ regulations, accountability/ responsibilities of both parties and liabilities of breach contract, as well as other necessary terms and conditions. The contract has to be signed according to the company's approval authority.
2. When executing a specific purchase order under a purchasing contract that was already been approved and signed on an annual term with suppliers previously, only business terms and conditions or purchase order has to be signed.

## **I. Goods/ Services Receiving**

1. The Purchasing Section must assign two or more staff who have not participated in the previous purchasing process to be responsible for receiving the goods/ services.
2. The receiving staff must follow the information of purchase order or service agreement on examination, to assure the goods or services delivery meets the specified quality and quantity. In case of any discrepancy, the receiving/ relevant staff should follow up with the supplier.
3. When all the delivery goods/ services are passed for examination, the receiving staff must sign for confirmation.

## **J. Payment for Purchasing**

1. The responsible purchasing staff must submit the Purchasing Requisition Form, purchase order, delivery note and invoice (including the signed confirmation document from receiving staff) to the relevant Financial Management Centre to process payment. Financial staff should follow the payment approval procedures to arrange the payment for the supplier.
2. Financial staff should conduct a thorough financial audit of every payment which are submitted by purchasing staff, this is in order to check if the authorized approval are under proper procedures, documents are completed, invoice terms and conditions are complied with the law, prices are correct, quantities are as ordered, amounts are accurately calculated. Also audit the stated name of items, specifications, quantities, conditions and transportation fees with approved contract, purchase order etc., and checking receiving evidences of the goods/ services. Payment can only be processed after all purchasing details are correctly audited and confirmed. If there are any discrepancies, financial staff and Purchasing Section should investigate the reason.

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3. The Purchasing Section should choose a reasonable payment method; financial staff must strictly follow the agreed terms/ conditions to process payment.
4. Financial staff should regularly audit the account settlement with suppliers, cross check the outstanding balance of payment requisition form with company's account payable and advanced payment accounts; considering the time difference between the company's storage and supplier's delivery, the account balance of both sides should be aligned at the end of every calendar month.
5. The Company should strengthen the accounting system controls in purchasing, receiving and payments, and record the supplier's status, purchase request, purchasing order, receiving confirmation, storage record (if applicable), supplier's invoice and payment record in detail. To ensure the records among the Financial Management Centre, Purchasing Section and warehouse's (General Office) are checked for consistency.

### **K. Supervision of Supplier's Performance**

1. The Purchasing Department should organise an annual evaluation with relevant staff from Financial Management Centre and user departments to review the performance of all suppliers engaged in the past fiscal year.
2. User departments should response their feedback, comments and any problems with goods/ services to the Purchasing Department. The Purchasing Department should log such comments whenever they are received.
3. The Purchasing Section devises proper procedures to handle the under-performed suppliers, e.g. issue warning letters, temporary suspension of invitation for quotations/tenders, or termination of engagement.

### **L. Record Storage and Management Supervision**

1. The Purchasing Section must record all related purchasing transactions in the "Purchasing Registration Form" in sequence file number, and store all concerning documents (including Purchasing Requisition Form, purchase orders, all quotations/ tenders are submitted by suppliers, vendor evaluation reports, contracts and invoices were signed with suppliers) for at least three fiscal years.
2. The Purchasing Section has to file all supplier's related qualification audit report and performance appraisal records at least three fiscal years.

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3. The Executive Office or Suppliers Management Section should irregularly assign the auditor to random inspect the purchasing activities of all Purchasing Sections/ Teams, all other business departments/ sections/ teams have to fully support accordingly. In each fiscal year, the Executive Office or Suppliers Management Section needs to device and conduct the concerning purchasing management reports for the Regional Head to review.
4. Any employee breaches the above-stated articles without reasonable explanations will be subject to disciplinary punishment.