

## Workshop Outline and Learning Methodologies

Session	Methodologies	Chapters covered
<b>Workshop 1</b>		
1. Introduction	<ul style="list-style-type: none"> <li>• Presentation</li> <li>• Group discussion</li> </ul>	
2. Corporate governance	<ul style="list-style-type: none"> <li>• Case study</li> <li>• Group discussion</li> </ul>	Ch. 1 and 2
3. Overview of an audit	<ul style="list-style-type: none"> <li>• Card game</li> </ul>	
4. Audit acceptance/ continuance	<ul style="list-style-type: none"> <li>• Case study</li> <li>• Group discussion</li> </ul>	Ch. 4 and 7
5. Audit planning	<ul style="list-style-type: none"> <li>• Case study</li> <li>• Group discussion</li> </ul>	Ch. 8, 9, 10, 11 and 12
6. Project management in audit planning stage	<ul style="list-style-type: none"> <li>• Group discussion</li> </ul>	Ch. 8
7. Conclusion	<ul style="list-style-type: none"> <li>• Presentation</li> <li>• Group discussion</li> </ul>	
<b>Workshop 2</b>		
8. Reboot	<ul style="list-style-type: none"> <li>• Presentation</li> <li>• Group discussion</li> </ul>	
9. Audit execution	<ul style="list-style-type: none"> <li>• Individual work</li> <li>• Progress meeting and reporting</li> <li>• Group discussion</li> </ul>	Ch. 9 – 15, 19, 20
10. Project management in audit execution stage	<ul style="list-style-type: none"> <li>• Presentation</li> <li>• Group discussion</li> </ul>	
11. Audit completion	<ul style="list-style-type: none"> <li>• Group sharing</li> <li>• Group discussion</li> </ul>	Ch. 16 and 17
12. Group audit	<ul style="list-style-type: none"> <li>• Group discussion</li> </ul>	Ch. 18
13. Conclusion	<ul style="list-style-type: none"> <li>• Presentation</li> <li>• Group discussion</li> </ul>	

It is extremely important that you have studied the relevant chapters of the Learning Pack and completed the pre-workshop materials thoroughly prior to attending the workshops so that you can derive the maximum benefit from them. You should become familiar with the workshop materials as they will be raised for discussion throughout the workshops.

**You are advised to bring the relevant auditing standards to the workshops for reference use.**

# Pre-Workshop Materials



## Workshops 1 and 2

### Case Background

#### Cheong Tai Design Holdings Limited ('CT Design')

##### Background Information

Cheong Tai Design Holdings Ltd ('CT Design') is a fashionable, upscale retailer of furniture and home accessories in Hong Kong. It has five mega furniture showrooms located in key shopping areas of Hong Kong – Kowloon Bay, Happy Valley, Admiralty, Shatin, and Yuen Long.

CT Design is a well-known brand in Hong Kong and is associated with high quality products and excellent customer service. CT Design aims to follow, and sometimes set, the latest fashions in home furnishing design. Thanks to its good relationships with manufacturers in China, it is able to quickly update and amend its furniture ranges to ensure it always offers 'on trend' items. Ranges are designed in collaboration with manufacturers and many items are manufactured exclusively for CT Design.

Customers can browse CT Design's furniture ranges in the showrooms, which are laid out as mini 'sets', dressed to show how a furniture range might look in the customers' own home. CT Design employees are on hand to answer customer questions and take orders and payment. Until recently, CT Design has employed a relatively high number of employees in its showrooms, compared to its competitors, in order to maintain its reputation for excellent customer service. However, CT Design is undertaking a programme to revamp the customer experience in showrooms (see current developments).

The company is family-owned, having been set up by the Tai family in 1972, with the formation of the first showroom in Kowloon Bay. It has grown with the addition of new physical showrooms as well as an online showroom where customers can browse and order the same furniture lines as are available in store.

CT Design offers a number of complementary services in addition to the sale of furniture items, these include furniture rental, interior design services, sale of extended warranties, repairs and upcycling sales.

CT Design prepares its financial statements to 31 August each year.

##### The retail furniture industry in Hong Kong

The sale of furniture in Hong Kong is directly linked to the number of property transactions. Recent government policies, such as measures aimed at cooling the property market after record increases in home prices in 2014, may have an adverse impact on the number of property transactions and a knock-on effect on the level of furniture retail sales.

The demand for 'green' or eco-friendly furniture is increasing rapidly. Customers are increasingly aware of their impact on the environment and are demanding products that are more environmentally friendly, including reconditioned, second-hand items. More stringent legal requirements, such as the use of fabrics that do not give off toxic fumes in the production process, must also be met by manufacturers. In order to reduce the consumption of wood, some alternative materials are also being used in manufacturing processes in view of environmental concerns.

## CT Design Revenue

CT Design generates revenue from:

- (1) Sales of new furniture. Furniture items can be ordered in one of CT Design's showrooms or through the online showroom. Customers pay using cash, debit or credit card and items are delivered direct to the customer's home from CT Design's central warehouse.

Customers can also take advantage of CT Design's interest-free credit which allows the customer to pay for their items in instalments over a period of 12 months. A credit check is carried out on the customer before interest-free credit is extended and a credit agreement is signed by the customer. Management carry out regular spot checks of credit checks. Interest-free credit is not available to customers purchasing from the online showroom.

- (2) Furniture rentals. Furniture can be rented for periods between three months and three years, with rental payments being made by customers in advance on a quarterly basis. Furniture is rented to both retail customers and property developers who wish to furnish show homes when marketing residential properties. Customers can rent any 'big ticket' furniture items, such as beds, dining tables, sofas etc., from the current furniture range.

Furniture items rented by customers are removed from CT Design's inventory records when the rental agreement is signed and accounted for as non-current assets. The items are depreciated over the assets' estimated useful life (see CT Design accounting manual extract).

- (3) Interior design services. Retail customers can pay an up-front fee to receive interior design services in their home. A CT Design interior design consultant will visit the customer's home, discuss their requirements and prepare a computer-generated design, along with estimated costs, for consideration by the customer. If the customer proceeds with a purchase from CT Design within 12 months of receiving the interior design service, the up-front design fee is deducted from the overall purchase price paid.

Interior design services are also supplied to corporate customers, such as property developers, usually in conjunction with the furniture rental service. As well as providing furniture under a rental agreement, an interior design consultant will provide a design for approval by the property developer, including colours, décor, flooring, lighting etc. A fixed fee is quoted based on the design presented for approval. If accepted, the designer will project-manage the whole process, including ordering, scheduling delivery and dressing each room. No up-front fee is payable by corporate customers who are invoiced in full on completion of the project and are given 30 days' credit.

- (4) Sale of extended warranties. All items sold by CT Design are covered by a 12-month warranty free of charge. In addition, customers can purchase extended warranties, in increments of 12 months, up to a period of 36 months. Warranties cover customers for faults which develop with products but not for damage caused by the customer. If an item is beyond repair, an equivalent new item will be supplied to the customer.
- (5) Repairs. Each showroom has its own in-house workshop which employs staff to carry out repairs to CT Design furniture purchased by customers and upcycle old furniture ready for resale (see below).

Repairs to customers' furniture can be carried out in the customer's home or at the workshop depending on the amount of work required. If the item of furniture is under warranty and the repair is required due to a fault which has developed with the item of furniture, the repair is carried out free of charge. If the item of furniture is not under warranty, or the repair is required due to damage caused by the customer, a fee is agreed with the customer before any repair work commences. The fee quoted is based on the estimated time it will take the workshop staff to complete the repair.

- (6) Upcycling sales. CT Design also operates in the second hand furniture market. Items of furniture previously purchased from CT Design can be 'traded in' by customers against the purchase of a new item of furniture. The second hand items of furniture are then reconditioned in the CT Design workshop and sold on a CT Design's upcycling website, [ctdupcycle.com](http://ctdupcycle.com).

### **CT Design – Financial and Corporate Structure and financing**

CT Design is currently a private company with shares being owned by members of the founding family and a venture capitalist.

- Mr Tai Hing: 25%
- Ms Patsy Tai (Mr Tai Hing's daughter): 25%
- Ms Sandra Tai (Mr Tai Hing's sister): 10%
- Mr Ben Warren: 40%

CT Design was owned entirely by the Tai family until 2007 when venture capital finance was raised to fund growth of the business, beyond the two retail showrooms at that time, into the additional three showrooms and the online market space. The directors of CT Design are planning to seek listed status, through an Initial Public Offering (IPO) on the Hong Kong Stock Exchange (HKEx) in 2016, at which point the venture capitalist will exit the business.

CT Design is run by its board of directors which consists of the following:

- Chairman – Mr Tai Hing
- Chief Executive (CE) – Ms Patsy Tai
- Managing Director – Frankie Ong
- Chief Financial Officer – Zhang Jun
- Sales and marketing Director – Amanda Winehouse
- Venture capitalist – Ben Warren

There are currently no non-executive directors and Ms Sandra Tai is not involved in the day to day running of the business.

All the members of the board, with the exception of Ben Warren, have been in post for over 20 years.

### **CT Design Management structure**

The board of CT Design oversees the strategic direction of the business, and works out of CT Design's head office, based at Kowloon Bay along with a number of core business departments, responsible for key areas in operating the business on a day to day basis. Each core business department produces a monthly board report which is presented to board members at their monthly board meetings. The core departments and their responsibilities are as follows:

- Finance
  - Reports to Zhang Jun
  - Responsibilities: monthly management accounts and quarterly forecasting, financial reporting, banking, receivables management and collection (credit control), internal financial control and internal audit, management of an outsourced payroll service provider
- Human resources
  - Reports to Frankie Ong
  - Responsibilities: recruitment of all employees, employee's wellbeing, staff training, redundancy management

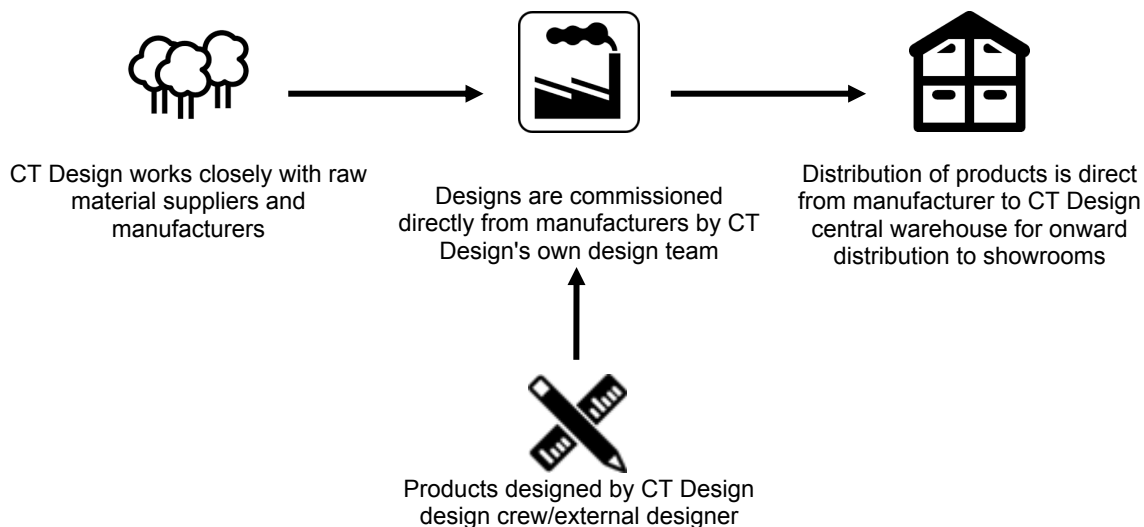
## Business Assurance

- Sales and marketing
  - Reports to Amanda Winehouse
  - Responsibilities: advertising, promotions, customer services and complaints, PR, website maintenance, social media monitoring, B2B sales team (who manage relationships with property developers)
- Design crew
  - Reports to Patsy Tai
  - Responsibilities: new product design (including management of external designers such as Lolly & Lolly, see green furniture range development below), design services sold to retail customers and property developers, in-showroom 'set' design
- Operations, logistics and procurement
  - Reports to Frankie Ong
  - Responsibilities: day to day running of showrooms and warehouse, delivery scheduling, inventory management and ordering processes, negotiations with manufacturers, technology (e.g. inventory management system, online sales, in-showroom technologies), management of CT Design workshop

Each showroom has a showroom manager, showroom supervisors and assistants who are responsible for the day to day running of each showroom. Activities include supporting customers in their purchases (including credit checks and sale of extended warranties), arranging deliveries and answering general customer queries on products.

### CT Design Supply Chain

CT Design follows a non-traditional supply chain approach for furniture products. It designs its own furniture ranges (or commissions designs direct from external designers) and negotiates directly with manufacturers for the production of furniture.



This supply chain approach has a number of advantages for CT Design:

- Exclusivity: ability to commission exclusive designs which end customers will not be able to purchase from any other retailer
- Efficiency: by cutting wholesalers and distributors out of the supply chain, CT Design is able to respond more quickly to customer demands, quickly increasing inventory of popular items and updating designs in response to latest trends

- Ethical supply: by working closely with manufacturers and their suppliers of raw materials, CT Design can ensure both the quality of raw materials and the fair and ethical treatment of suppliers and their workers, which is part of the company's ethos

### CT Design current developments

CT Design has invested in a number of projects and programmes during 2014/15 to ensure that it stays at the forefront of the furniture retail industry for both its products and customer service. The projects and programmes have been financed through bank loans.

#### (1) 'State of the art' shopping experience programme

CT Design has revamped its showrooms to provide customers with a 'state of the art shopping experience'. Customers can use CT Design's handheld tablet devices (which they can collect at the entrance to the showroom), or download a CT Design app onto their own smartphone/tablet, when browsing items in the showroom. Customers scan the QR code (see appendix B) on any item of furniture in which they are interested to show more details (such as dimensions, demo videos, stock availability etc.). Customers can also order, pay and book a delivery date all from the handheld tablet device or CT Design app.

CT Design had to make significant investments in technology to implement the programme, including upgrading its inventory system, development of the CT Design app, purchase of handheld tablet devices for each store and investment in employee training.

As a result of the programme, CT Design will significantly rationalise its in-showroom employees as fewer are now required to provide advice to customers in the showrooms. Some employees will be retrained and deployed to other parts of the business whilst others will be subject to redundancy throughout 2015/16.

#### (2) China expansion

The increasing consumption power of the mainland Chinese population and its booming property market has driven up the demand for residential furniture. Between 2010 and 2013, China's retail sales of furniture recorded an average growth over 40% per annum. CT Design's board see this as a significant opportunity to expand the CT Design business outside of Hong Kong. The company is currently in the process of negotiating the acquisition of 100% of the share capital of Hon Kwong Furniture Co Ltd (Hon Kwong Furniture), a furniture retailer with ten large furniture showrooms in China. The acquisition is expected to be completed in February 2016, at which point Hon Kwong Furniture will be re-branded to the CT Design brand. Mr Tai Hing and Ms Patsy Tai have been heavily involved in the negotiations.

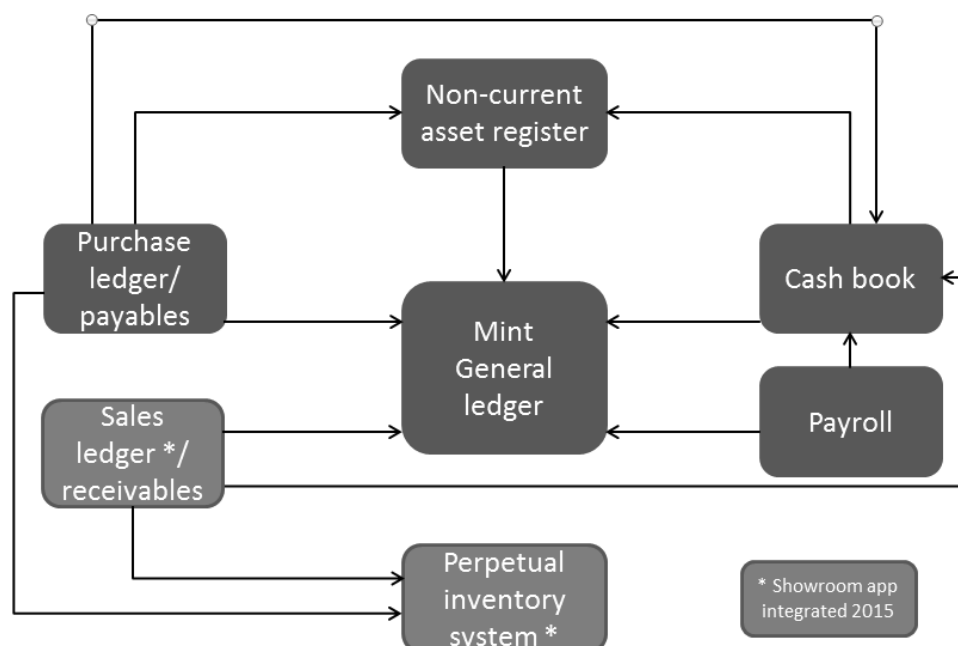
#### (3) Green furniture range development project

Given the increasing appetite for 'green' or eco-friendly furniture, CT Design commissioned Lolly & Lolly, a world renowned UK-based furniture designer to design and develop a range of environmentally-friendly furniture. The design process commenced in September 2014 and the initial furniture prototypes were delivered to CT Design in May 2015, at which point CT Design concluded that mass production of the green furniture range was commercially viable. Lolly & Lolly has invoiced CT Design for its costs on a monthly basis since September 2014.



### Accounting systems and internal controls

CT Design uses an accounting software system, called Mint, which was developed specifically for CT Design. It is a fully integrated accounting system:



During the year ended 31 August 2015, a number of changes were made to the Mint accounting system to integrate the new showroom app allowing customers to view inventory levels and place orders directly from their smartphones or showroom tablet device. CT Design also invested significant amounts in the development and launch of the app including marketing and employee training costs. The software development was provided by SolutionHK who also initially implemented the Mint accounting system for CT Design.

#### Sales via smartphones and tablet devices

Sales of furniture items made in CT Design showrooms using the smartphone/tablet app are automatically recorded in the sales ledger and cashbook. Customers use either debit or credit cards to make their purchase. The inventory quantities are also updated at the time of purchase but the item may remain in CT Design's warehouse for a number of days before delivery on the customers' requested delivery date. Customers can schedule their deliveries up to 28 days in advance.

#### Other in-showroom sales

Customers can also make purchases using more traditional methods in a showroom by requesting an item from a CT Design showroom assistant who will record the transaction at a sales terminal and take payment from the customer. Customers may also pay in cash using this method. The sales terminals are integrated with the accounting system in the same way as the showroom app.

#### Online sales

Online sales made by customers through the CT Design website are also automatically recorded in the sales ledger. However, the integration between the website and the perpetual inventory system is not 'real-time'. The perpetual inventory system is updated every four hours for sales made through the website. This has resulted in a number of issues since the launch of the showroom app where customers have purchased items that are later found to be out of stock due to the perpetual inventory system quantities being out of date.

#### Tangible non-current assets

The tangible non-current asset register includes items transferred from inventory which are to be rented to customers. However, the non-current asset register and perpetual inventory systems are

not integrated, meaning adjustments for transfers from inventory are recorded manually (see Appendix E section 2).

### **Inventory**

As in prior years, CT Design intends to use the amounts recorded in the perpetual inventory system for the purposes of calculating an inventory figure for inclusion in the financial statements at 31 August 2015. CT Design does not perform full inventory counts at the year end, but monthly counts are performed on the last day of each month for a sample of product lines. All major product lines are included in a monthly count at least once during a financial year.

### **Ken Wong & Co**

Your firm, Ken Wong & Co is a medium-sized audit and assurance firm and has been the external auditor of CT Design since 1995. Mr Ken Wong is the audit engagement partner and has a strong relationship with the board of directors.

The board of CT Design has requested that your firm accept re-appointment as external auditor for the year ending 31 August 2015, and have requested to discuss acceptance of a non-audit engagement when your firm next meets with them.

You have the following additional information available to you at the planning stage:

- *Hong Kong Morning Post* news article (Appendix A)
- CT Design employee briefing – showroom of the future (Appendix B)
- Hong Kong IPO advisor website (Appendix C)
- Letter from Kim & Co, chartered surveyors (Appendix D)
- CT Design accounting manual (extracts) (Appendix E)
- Interim controls testing (Appendix F)
- Internal control checklist (Appendix G)
- Email from CT Design financial controller (Appendix H)
- Minutes of HR meeting: 17 July 2015 (Appendix I)
- Letter from SolutionHK, software developers (Appendix J)

## Additional Information

### CT Design Prior Year Audited Financial Information Extracts

#### STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 AUGUST 2014

	<i>Note</i>	HK\$'000
Revenue	1	274,705
Cost of sales		<u>(125,306)</u>
Gross profit		149,399
Distribution costs		(25,298)
Administrative expenses		<u>(46,291)</u>
		77,810
Finance costs		<u>(14,127)</u>
Profit before taxation		63,683
Taxation		<u>(10,576)</u>
Profit for the year		<u><u>53,107</u></u>

#### STATEMENT OF FINANCIAL POSITION AS AT 31 AUGUST 2014

	<i>Note</i>	HK\$'000	HK\$'000
<b>ASSETS</b>			
<i>Non-current assets</i>			
Intangible assets	2	28,746	
Property, plant and equipment	3	<u>186,174</u>	
			214,920
<i>Current assets</i>			
Inventories		20,598	
Trade and other receivables	4	8,619	
Cash and bank balances		<u>267,432</u>	
			<u>296,649</u>
<i>Total assets</i>			<u><u>511,569</u></u>
<b>EQUITY AND LIABILITIES</b>			
<i>Equity</i>			
Issued share capital		150,000	
Accumulated profit		<u>255,474</u>	
			405,474
<i>Non-current liabilities</i>	5		70,207
<i>Current liabilities</i>	6		<u>35,888</u>
<i>Total equity and liabilities</i>			<u><u>511,569</u></u>

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 AUGUST 2014

	<i>Issued share capital</i>	<i>Accumulated profit</i>	<i>Total</i>
	HK\$'000	HK\$'000	HK\$'000
Balance as at 1 September 2013	150,000	202,367	352,367
Profit for the year	<u>—</u>	<u>53,107</u>	<u>53,107</u>
Balance as at 31 August 2014	<u>150,000</u>	<u>255,474</u>	<u>405,474</u>

## Notes to financial statements for the year ended 31 August 2014

### 1 ACCOUNTING POLICIES

#### 1.1 Basis of preparation

The financial statements for the year ended 31 August 2014 are prepared on the historical cost basis.

#### 1.2 Revenue

Revenue comprises amounts earned from furniture sales, furniture rentals and related services, net of discounts allowed.

Furniture sales are recognised on the date of sale. Furniture rental income is recognised evenly over the term of the rental period.

Revenue from the sale of extended warranties is recognised evenly over the warranty term.

#### 1.3 Intangible assets

Intangible assets relate to the cost of software development, including systems and website development. Amortisation is provided at rates calculated to write off the cost of intangible assets over the expected useful lives on the following basis:

Software development costs – 20% straight line

#### 1.4 Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation.

Depreciation is provided at rates calculated to write off the cost of non-current assets, less their estimated residual value, over the expected useful lives on the following bases:

Leasehold properties – 5% to 15% straight line

Fixtures, fittings and equipment – 10 to 20% straight line

Rental furniture – 20 to 33% straight line

#### 1.4 Inventories

Inventories are valued at the lower of cost and net realisable value.

#### 1.5 Trade receivables

Trade receivables are reduced by an allowance for estimated irrecoverable amounts.

#### 1.6 Trade and other payables

Trade payables and accruals include amounts owed to suppliers.

#### 1.8 Deferred Income

Deferred income represents amounts received in advance in respect of furniture rentals and extended warranties.

#### 1.9 Provisions

Provisions represent an estimate of future claims under warranties issued on furniture sales made before 31 August 2014.

## 2 INTANGIBLE ASSETS

	<b>Software development HK\$'000</b>
<i>Cost</i>	
At 1 September 2013	40,074
Additions	<u>5,860</u>
At 31 August 2014	<u>45,934</u>
<i>Amortisation</i>	
At 1 September 2013	8,212
Charge for the year	<u>8,976</u>
At 31 August 2014	<u>17,188</u>
<i>Carrying amount</i>	
At 31 August 2014	<u>28,746</u>
At 31 September 2013	<u>31,862</u>

### 3 PROPERTY, PLANT AND EQUIPMENT

	<i>Leasehold properties</i> HK\$'000	<i>Fixtures, fittings and equipment</i> HK\$'000	<i>Rental furniture</i> HK\$'000	<i>Total</i> HK\$'000
<i>Cost</i>				
At 1 September 2013	386,717	103,489	38,776	528,982
Additions	-	14,196	10,162	24,358
Disposals	-	(10,849)	(9,291)	(20,140)
At 31 August 2014	<u>386,717</u>	<u>106,836</u>	<u>39,647</u>	<u>533,200</u>
<i>Depreciation</i>				
At 1 September 2013	242,542	46,794	21,281	310,617
Charge for the year	34,284	12,338	9,716	56,338
Disposals	-	(12,001)	(7,928)	(19,929)
At 31 August 2014	<u>276,826</u>	<u>47,131</u>	<u>23,069</u>	<u>347,026</u>
<i>Carrying amount</i>				
At 31 August 2014	<u>109,891</u>	<u>59,705</u>	<u>16,578</u>	<u>186,174</u>
At 31 September 2013	<u>144,175</u>	<u>56,695</u>	<u>17,495</u>	<u>218,365</u>

### 4 TRADE AND OTHER RECEIVABLES

Gross trade receivables	HK\$'000 8,795
Less allowance for receivables	(176)
	<u>8,619</u>

### 5 NON-CURRENT LIABILITIES

Bank loan	HK\$'000 55,720
Warranty provision	14,487
	<u>70,207</u>

**6 CURRENT LIABILITIES**

	HK\$'000
Trade and other payables	15,449
Taxation payable	10,576
Accruals and deferred revenue	3,748
Warranty provision – current portion	6,115
	<u>35,888</u>

**7 PROVISIONS**

	HK\$'000
<i>Provision for warranty claims</i>	
As at 1 September 2013	18,415
Amounts used during the year	(6,408)
Additional provisions made in the year	8,595
As at 31 August 2014	<u>20,602</u>

A provision of HK\$20,602,000 has been recognised for expected warranty claims on products sold during the last four financial years.



## Appendix A – Hong Kong Morning Post News Article

### Hong Kong's housing market facing downturn

Aug 2015

Government cooling measures take hold

By Eric Chan

Anyone looking for quick wins in Hong Kong's property market could be disappointed. Few analysts are currently seeing positive things for the slowing market and you can find predictions of price falls ranging from at least 5% to as much as 30%.

After a number of years of steady increases, prices have now slowed. The combination of a surge in new supply, the effects of government-imposed cooling measures and a prediction that interest rates will rise next year spells difficulty for the market.

"Prices will fall more if interest rates are raised and the economy weakens," say Nigel Wang, regional head of property research, at property specialists LSN. "Another factor will be weaker economic momentum, especially due to weakness in the retail sector and ailing visitor numbers amid the end of the tourism-driven boom in the past few years".

There's also some discounting of new housing by developers. "The primary market is offering new supply on the cheap compared to existing housing," Wang says. This is largely due to the increased competition for buyers as supply increases. Many housing developers are worried about their future as cash flow issues really start to bite if they cannot sell properties fast enough. A fall in the rate of completions at the end of 2015 and into 2016 is expected to hit property developers particularly hard.

Although house purchase remains cheaper than renting, many would-be buyers remain cautious. Earlier this year mass residential sales below HK\$10m dropped almost 30% but prime residential sales above this price level saw a lower fall at 16.2%. First time and young homebuyers are unable to get onto the property ladder due to restrictions on mortgage lending and many are afraid to commit to such a large purchase when the state of the economy remains uncertain, preferring to wait and see what happens.



## Appendix B – CT Design Employee Briefing Document

### CT Design employee briefing: Showroom of the future

As an organisation we pride ourselves on the shopping experience and service provided to our customers. This employee briefing summarises the key features of our investment in 'showroom of the future' which you have learned about during your showroom training day.

#### Product labelling – fact tags

Product information will be contained in simplified 'fact tags' displayed next to furniture items in showrooms and containing five key pieces of information: product name, brief description, picture, price and QR code. These must be kept up to date in all showrooms.

**CT Design – Aubrey Dining Table**

- Solid natural oak
- Seats up to 8
- W200 x D100 x H75 cm



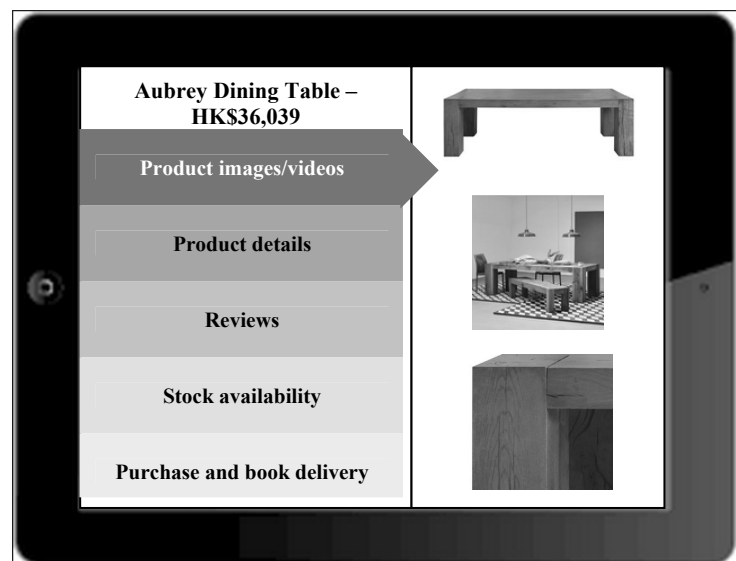
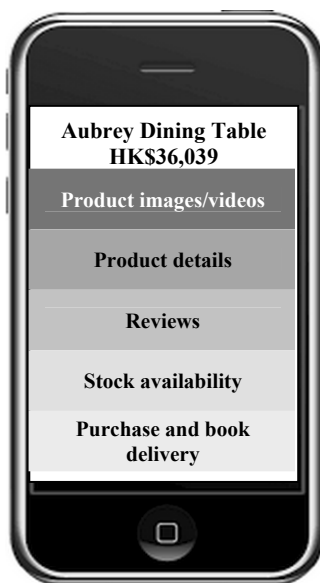
HK\$36,039



QR code

#### QR codes

QR codes are a type of bar code that can be read by the scanner on a smartphone or tablet device. When the QR code is scanned by the customer they can see richer product information, read reviews, check stock availability, place an order and book a delivery date. In CT Design stores customers can use their own smartphone (and download the CT Design 'app') or use one of CT designs own tablet devices.



## Appendix C – Hong Kong IPO Advisor Website

### IPO Advisors – *smoothing your listing experience*

Home | About Us | IPO Advice | Blog | News | Finance

#### IPO? Here's what you need to know



If your company is thinking of listing on the Hong Kong Exchange ('The Exchange'), use our guide to the process to help you through.

#### Main Board or GEM?

The market capitalisation of any new applicant at the time of listing must be at least HK\$200m for a listing on the Main Board and HK\$100m for a listing on GEM. The listing process is similar whether your company is listing on the Main Board or the Growth Enterprise Market (GEM). Unless specified, procedures below cover both types of listing.

#### The IPO process

- 1 Ensure the basic listing requirements given in the Main Board or GEM Listing Rules are met.
- 2 Appoint your sponsor at least two months before your application. Other key parties you will need to appoint include legal advisors, reporting accountants and underwriters.
- 3 Your sponsor will complete and lodge your listing Application Form, Application Proof (a draft prospectus) and all other relevant documentation required under the Main Board or GEM Listing Rules. We would advise allowing several months to prepare a quality application that is substantially complete.
- 4 The Exchange will conduct an initial "3-day check" on your submission after which your application will be either accepted or returned if not satisfactorily complete. This is a limited preliminary check and a more detailed assessment occurs later. If your company's application is returned, you do have the right to a review of the Listing Committee's decision (accelerated review process).
- 5 Accepted applications will undergo a detailed vetting process with one or two rounds of comments which your sponsor will need to respond to.
- 6 If your sponsor's responses are satisfactory, your application will progress to a hearing.
- 7 After the hearing a post hearing information pack (PHIP) will be published on the Exchange's website for listing applicants. All other publicity material relating to the listing must be reviewed by the Exchange prior to release.
- 8 Dealing of shares can now commence!

#### A note on your sponsor

Your sponsor is a key party in your listing application so take time to choose the right one. Your sponsor will need to prepare and submit all your listing documentation, making sure it meets the high standards demanded by the Exchange. Your sponsor also needs to be available to respond to the Exchange's comments and questions on a timely basis. Choosing an experienced sponsor with a proven track record is likely to increase your chances of a successful listing.

#### Some final words

Listing on the Exchange requires good preparation for a smooth IPO that meets all the regulatory and legal requirements. The advice given in this article is general and only provides a very brief overview of the process. To discuss how we can personally advise your company please contact our corporate finance team at [corp-fin@ipoadvisors.com](mailto:corp-fin@ipoadvisors.com).

f Like 0

g +1 0

Tweet 0

in Share

## Appendix D – Letter from Kim & Co, Chartered Surveyors

15 July 2015

Board of Directors  
CT Design Ltd  
Kowloon Bay  
Hong Kong



Chartered surveyors  
and property consultants

### CT Design Ltd: Property valuation

I have pleasure in enclosing our valuation report for each of the long-leasehold properties currently occupied by CT Design furniture stores.

As detailed in our report, we provide our expert valuation of each of the leasehold properties as at June 2015. The purpose of the valuation, as discussed at our meetings with you, is for consideration to whether the company should revalue these properties in its financial statements for the year ending 31 August 2015 in light of the proposed IPO listing. As agreed in our letter of engagement, the scope of the valuation did not include the leasehold warehouse property.

The basis of each valuation and associated assumptions are detailed in the enclosed report, but in summary our conclusions as to value are detailed below:

<i>Property</i>	HK\$m
Kowloon Bay	950.6
Happy Valley	695.1
Admiralty	506.2
Shatin	477.9
Yuen Long	620.5
<i>Total valuation</i>	<u>3,250.3</u>

I would also like to take this opportunity to thank you and your staff for your hospitality during our visits.

Yours sincerely,

*C. R. Kim*

Charlotte Kim  
Partner, Commercial Division  
Kim & Co, Chartered Surveyors

## Appendix E – CT Design Accounting and Control Manual (extracts)

### Cheong Tai Design - Accounting and Control Manual 2015

1)	Interest-free credit sales
2)	Furniture rentals
3)	Interior design services
4)	Warranties
5)	Credit control policy

#### 1) Interest-free credit

##### 1a) Consumer credit reports and deposits

- Customers may take advantage of 12-month interest-free credit on purchases in excess of HK\$10,000
- A credit report must be obtained, from TransUnion credit reference agency, for all customers requesting interest-free credit
- Customers must only be accepted where the “Current Manner of Payment” code is 01. A code 01 means the customer is currently making payments as agreed (no arrears)
- A minimum deposit of 10% of the total sales value must be obtained from the customer and the consumer credit agreement signed before furniture items are requested for delivery from the warehouse
- Only showroom employees who have satisfactorily completed the CT Design “customer credit” training course may make sales to customers on credit
- Where possible, a direct debit mandate should be set up with the customer to collect monthly installments as this reduces risk of late and non-payment

##### 1b) Accounting for sales made using interest-free credit

- The full value of the sale is recorded when the customer deposit is paid and a trade receivable recognised for the net amount
- E.g. on a sale of HK\$20,000 a minimum HK\$2,000 deposit is required and accounted for as:

Dr	Cash	2,000	
Dr	Trade receivable	18,000	
	Cr	Revenue	20,000

- Payments are made by the customer in equal installments over the 12-month period:

Dr	Cash	1,500	
	Cr	Trade receivable	1,500

#### 2) Furniture rentals

##### 2a) Rental process

- Any items of furniture in CT Design’s range may be rented for a period between three months and three years
- Rental is due quarterly in advance from both retail and corporate customers (e.g. property developers)
- Rental prices are fixed according to CT Design furniture rental price list
- Discounts for large corporate customers are at the discretion of the sales team and must be authorised by the sales manager at the Kowloon Bay head office
- Credit checks must be carried out on all rental customers
- Late and non-payment of rental charges is controlled centrally at Kowloon Bay Head Office and follows CT Design’s standard credit control policy (see section 5)

**2b) Accounting for furniture rental - transfer to non-current asset register**

- All furniture items purchased from our furniture manufacturers are initially recorded at cost in CT Design's perpetual inventory system
- When an item of furniture is rented to a customer, the item must be immediately removed from the perpetual inventory system and recorded at the equivalent value in the non-current asset register
- Items held in the non-current asset register are depreciated, on a monthly basis, over the assets' estimated useful life in accordance with CT Design's standard policies

**2c) Accounting for furniture rental - on-going rental payments**

- Quarterly rental receipts are recorded in the revenue account on receipt and a year end adjustment is made for any advance payments received which relate to the subsequent accounting period
- E.g. quarterly rental of HK\$3,000 received on 1 August for the three months to 31 October:

<b>Dr</b>	Cash	3,000	
	<b>Cr</b>	Revenue	3,000
Being the initial recording of rental receipt			
<b>Dr</b>	Revenue	2,000	
	<b>Cr</b>	Deferred Revenue	2,000
Being the year end adjustment for rentals received in advance			

**2d) Accounting for furniture rental - end of rental period**

- When a rental period comes to an end, the item of furniture is returned to the CT Design workshop for assessment of its condition
- Items which cannot be refurbished for onward sale are scrapped and immediately written off in the non-current asset register
- Items which can be refurbished are removed from the non-current asset register and recorded as part of the perpetual inventory records at the lower of cost and estimated net realisable value (NRV). Cost is the amount at which the asset was previously held in the non-current asset register (i.e. original cost of the furniture item less accumulated depreciation). NRV is the estimated selling price less the estimated refurbishment costs (including labour and material costs)

**3) Interior design services****3a) Retail customers**

- The up-front design fee received from customers should be credited to revenue when the design visit is completed by the CT Design interior designer
- Where a customer proceeds with a purchase within 12 months of receiving the design service, the reduction in the sales price of the items purchased should be treated as a discount

**3b) Corporate customers**

- Corporate customers receiving a design service are invoiced in full on completion of the project and are allowed 30 days credit. Late and non-payment of invoices is controlled centrally at Kowloon Bay Head Office and follows CT Design's standard credit control policy (see section 5)

**4) Warranties****4a) Initial sale – extended warranties**

- Customers purchasing extended warranties pay a fixed up-front price which reflects the value of the item(s) covered by the warranty and the length of the warranty period.
- The revenue earned from extended warranty sales should be recognised evenly over the warranty period

**4b) Provision for warranties**

- A provision for the repair and replacement of items under warranty (both the 12-month standard warranty and the extended warranties) should be estimated at each year end, based on the expected cost of repair and replacement of items purchased in the year and returned under warranty post year-end.

5) **Credit control policy**

- Credit control is managed centrally at Kowloon Bay Head Office and follows CT Design's standard credit control policy
- The policy is applicable to customers receiving interest-free credit on purchases, rental customers and corporate interior design service customers receiving credit.

<b>Age</b>	<b>Action</b>
Past Due Date	Courtesy Call to customer to check to make sure products were received as ordered and to remind of the terms of the credit agreement.
30 Days Overdue	Reminder letter 1 is sent.
45 Days Overdue	Call 1 is made to customer. After ensuring that there is no problem with payment being approved, you seek a commitment for payment and a time frame for when it will be sent.
60 Days Overdue	Call 2 is made to customer. Attempt to come to a payment arrangement explaining it is necessary to keep it from being referred to our collection agency.
75 Days Overdue	Final Demand Letter is sent to the customer. It makes clear your intent to involve a third party agency if they do not forward full payment.
90 Days Overdue	Refer to credit collection agency.

## Appendix F – Interim Controls Testing

**To:** Alicia Kim, Audit senior  
**From:** Audit assistant  
**Date:** 17 September 2015  
**Subject:** Interim controls work

Dear Alicia

As requested, here is a summary of the interim internal controls tests carried out at CT Design ready for your meeting tomorrow. The testing carried out focussed on areas which had changed and where we noted issues in prior years.

As you know, we were unable to carry out all IT controls testing as planned and the interim visit was cut short. This was due to the implementation of software changes from the development of the CT Design App and Mint Accounting System being incomplete at the time of our visit.

Kind regards  
Audit assistant



Test	Result
<b>Head office</b>	
Check actual versus budget results for evidence of management review for year to date	For all months tested management have signed the results to evidence review.  Management is also provided with a monthly written report explaining key variances but this is not signed.
Obtain results of Solution HK testing for two system changes and check all issues resolved before implanted in CT Design's systems	Solution HK provided confirmation of testing for two systems changes made.  Note that developments in the IT systems were still being implemented at interim. We were not able to carry out the rest of the extensive IT controls testing planned.
<b>Showroom (Kowloon Bay selected for testing)</b>	
Check all tills are locked	Selected tills were observed to be locked in showroom. Keys were observed to be carried by the showroom manager at all times.
For a sample of ten days, check daily reconciliations of cash to till rolls exist and are reviewed by supervisors	All twenty reconciliations tested were initialled by supervisors.
For ten retail customers awarded interest free credit ensure a credit check was carried out by a trained member of staff. Ensure a signed customer credit agreement exists for each customer in the sample.	All ten customers had a satisfactory credit report and signed credit agreement on file.  CT Design does not require the name of the staff member carrying out the check to be recorded.
Ensure that a deposit of at least 10% was received before furniture was delivered to the customers in the above sample.	Deposits of at least 10% were collected from all customers in the sample.  However, for one customer in the sample, furniture was delivered before a cheque had been cleared.
For 3 months, ensure the aged receivable listing has been reviewed by a responsible member of management	Monthly aged receivable listing is not signed to evidence review. Management were able to show meeting notes from a monthly review receivables meeting between the receivables ledger clerk and the financial controller for two months in the sample. For the third month in the sample, a meeting did not take place as the financial controller was on annual leave.
For a sample of 5 overdue receivables, obtain evidence of credit control policy being implemented	Credit control policy had been implemented as per CT Design guidelines for all receivables in the sample.
For a sample of 15 cheque payments received, ensure there is a supporting remittance advice	All agreed

## Appendix G – Internal Control Checklist

**File note:** CT Design internal control checklist, year ended 31 August 2015  
**Prepared by:** Alicia Kim, Audit senior

Ken Wong  
& Co

The attached internal control checklist was completed in a meeting with the CT Design Financial Controller on 18 September 2015. The purpose of the checklist is to establish whether any significant changes have arisen to systems and related internal controls since the prior year audit and for the purposes of determining an appropriate audit approach for the audit of the financial statements for the year ended 31 August 2015.

### Summary of results

- The majority of controls in place appear to be in line with our experience in the prior year
- There continues to be heavy reliance on the integration between the Mint accounting system and secondary sub-systems (i.e. perpetual inventory system and electronic point of sale (EPS) system in each showroom)
- Significant development of the perpetual inventory system and sales ledger has taken place in the year with the introduction of the showroom app
- There are potential issues with the allocation of electronic receipts between trade receivables accounts
- The control weaknesses around segregation of duties and cut-off in respect of inventory which were identified in our report to management for the year ended 31 August 2014 have not been addressed by management

### Budgetary Controls and Follow up Reviews

No.	Description	Y/N
<b>Budgeting Preliminaries</b>		
1	Are initial budget submissions developed and prepared by major departments and activity centres?	Y
2	Are budget revisions approved by an authorised person?	Y
3	Are budget reports distributed, (or available on-line), to operating departments as a management tool?	Y
<b>Segregation of Duties</b>		
4	Are the following duties generally performed by different people: <ul style="list-style-type: none"> <li>Preparation and approval of the budget submitted to the management?</li> <li>Implementation and approval of the budget submitted to the management, including budget revisions?</li> </ul>	Y Y
<b>Preparation &amp; Approval</b>		
5	Are budgets prepared in sufficient detail (i.e. at operational responsibility level) to provide a meaningful tool to monitor subsequent performance?	Y
6	Is the budget preparation assigned to a competent and experienced staff?	Y
7	Does the department head review the estimates before submission?	Y
8	Are the budgets reviewed and approved by the Board on annual basis?	Y
<b>Monitoring of Budgets</b>		
9	Are over expenditures or under realized revenues discussed with departmental personnel and are there explanations for significant variation from budgeted amounts?	Y
10	Is there a procedure to follow up on major unrealized revenue items?	Y
11	Does the management review actual results against the monthly budgets?	Y
12	Does the management compare budget estimates with actual results at year end to identify errors or changes in trends?	Y

**Accounts Receivables**

No.	Description	Y/N
1	Does the company have written credit and collection policies that meet the requirements of contractual terms and other policies and procedures established by the management and legal advisor?	Y
2	Have procedures been documented to collect monies due within the contractual payment terms?	Y
3	Have procedures been adopted to notify management and follow through the collection after reasonable period of delay in payment?	Y
4	Does the company have established policies and procedures concerning refunds of overpayments and invoice adjustments?	Y
5	Are individual receivable records posted only from authorised documents?	Automated posting from sales ledger
6	Are statements of account balances mailed at least once a month?	N, quarterly
<b>Writing-off Receivable Balances</b>		
8	Has an allowance account been established for doubtful accounts to reflect the amount of the company's receivables that the management estimates will be uncollectible?	Year end adjustment only
9	Is there any accounting policy for writing-off accounts receivable after certain period of its overdue position?	N, determined by management
10	Are any such write-offs brought to the notice of the Management and Board for their prior approval?	N, determined by management
11	Are accounts written-off the Company's financial accounting records when all collection procedures have been exhausted without success?	Y, at year end and if deemed necessary by management
12	After write-off, does the company continue to follow up for recovery of written-off dues?	N
<b>Collection of Receivables</b>		
13	Is the accounting department notified directly and in a timely manner of billings and collection?	Automatically posted in Mint accounting system
14	Are the following duties generally performed by different people: <ul style="list-style-type: none"> <li>Billing, collecting, and cash application of accounts receivable funds?</li> <li>Maintaining detail accounts receivable records, collecting, and General Ledger posting?</li> <li>Writing-off or adjusting to accounts receivable and the maintenance of accounts receivable records?</li> <li>Investigating disputes with billing &amp; certified amounts and the maintenance of accounts receivable records?</li> <li>Reconciling, investigating reconciling items and posting detail accounts receivable records?</li> </ul>	Y, Partly automated  Automated Y  N  Y
15	Are all collections on accounts receivable posted to individual receivable accounts?	Y

No.	Description	Y/N
16	Is access to the accounts receivable accounting system limited only to authorised individuals?	Y
<b>Monitoring</b>		
17	Are all non-cash credits, such as credit memos, allowances, and bad debts properly authorised?	Y
18	Is an aging schedule prepared monthly and is it reviewed by a responsible manager?	Y
19	Are all legal remedies followed to collect write-offs or uncollectible accounts with the legal advisor?	Y
20	Are remittances promptly applied against receivables?	Y
21	Is there a procedure to follow up on overdue accounts and refer them to a collection company as appropriate?	Y
22	Are follow up and collection activities properly documented?	Y
23	Are detailed receivable ledgers periodically reconciled to General Ledger?	Automated
24	Are aged receivable listings prepared periodically to identify old unpaid accounts?	Y, exception report prepared by Mint accounting system
25	Are uncollectible accounts identified and submitted to the Board of Directors annually for discharge of accountability?	N, authorised by financial controller

## Receipts

No.	Description	Y/N
<b>System</b>		
1	Are the following duties distributed among at least two individuals: <ul style="list-style-type: none"> <li>• Authorize cash receipts?</li> <li>• Record cash receipts?</li> <li>• Deposit cash receipts?</li> <li>• Reconcile cash receipts?</li> </ul>	Y
2	Are there procedures in place to establish a proper cut-off of cash receipts at the end of the financial year?	Y
3	If payments are made in person are receipts for payment used?	Y, till receipts issued
4	Do control procedures exist regarding the collection, timely deposit, and recording of collections in the accounting records at each collection location?	Tills integrated with Mint accounting system to automatically record sales/cash receipts. Receipts in respect of accounts receivable either automatically credited or recorded and banked on same day

No.	Description	Y/N
<b>Security</b>		
5	Is there adequate physical security surrounding cashiering areas?	Y, lockable tills
6	Are till rolls retained for cash registers?	Y
7	Are unidentified cash remittances immediately returned to the payers or deposited into a suspense account for further research?	Y
8	Is supporting documentation required to indicate the purpose of the remittance to the company?	Remittance advises for payment received by cheque. Credit transfers are sometimes an issue if payer does not correctly identify name or invoice.
<b>Receipts through Cheques</b>		
9	Are the cheques recorded immediately upon receipt in the Cash Book?	Y
10	Are cheques reviewed for accuracy and authenticity before acceptance?	Y
<b>Cash Collections</b>		
11	Are cash collections recorded immediately upon receipt in the cash registers or cash receipt book?	Automated, tills integrated with Mint accounting system
12	Are cash collections balanced to receipts daily?	Y, cash in till reconciled to till roll daily
13	Is cash shortage for each cashier documented and investigated?	Y, although small differences are not investigated
14	Are cash and related items (Cheques, Credit Cards, and Receipts) physically safeguarded against theft and loss?	Y
15	Are cash shortages identified, analysed, recorded, and reported immediately?	At end of each day
16	Are all the cash collections deposited within one business day of receipt?	Y
17	Is someone independent of the cash receiving process, reviewing and approving void and refund transactions?	Supervisors in each showroom approve voids and refunds but can also make sales
<b>Electronic Transfers</b>		
18	Is there a written policy for Electronic Payments?	N
19	Are staff aware of the policy for accepting Electronic Payments?	N
20	Are Electronic Transfers matched with written confirmation from the sender?	N
<b>Monitoring</b>		
21	Does management approve or spot check reconciliations?	Y, till reconciliations prepared by showroom assistants reviewed by supervisors

**Inventory: Goods and Warehouse**

No.	Description	Y/N
1	Is there a formal organizational chart defining the responsibilities of ordering, accepting, approving, processing and recording of the inventory?	Y
2	Are there policies established to ensure that obsolete and inactive items in inventory are scrapped?	Y
3	Are steps documented to ensure that goods received are accurately counted and examined to see that they meet quality standards and specifications?	Y, although issues experienced in year where goods received were not checked in line with policy and subsequently found to be defective
4	Is an inventory system properly in place to take care of proper accounting of following aspects: <ul style="list-style-type: none"> <li>• Receipt of goods?</li> <li>• Despatch of goods?</li> </ul>	Y, perpetual inventory system, integrated with Mint account system
5	Does the company maintain perpetual inventory records and are all inventory items put on the perpetual inventory system?	Y
6	Are the written instructions given and explained to all personnel involved in the physical count of the inventory?	Y, monthly partial counts undertaken
7	Is there a proper cut-off of receipts and sales from inventory at year end?	Receipts and despatches of goods occur at year end but are reflected in real time in the perpetual inventory system so an accurate record of inventory on hand is held at the end of the last day of the financial year
8	Are entries to perpetual inventory records made timely upon the receipt of goods?	Y, records for receipts of goods updated within 48 hours of receipt
9	Are vendor invoices used to record purchases to the perpetual inventory records?	N, goods received notes used
10	Are the following duties generally performed by different people: <ul style="list-style-type: none"> <li>• Receiving and despatch of inventory and taking the physical inventory?</li> <li>• Receiving and issuing of inventory and the approving of expenditures, recording transactions in the general ledger, and reconciliation of subsidiary records to control accounts?</li> </ul>	N, all warehouse employees are involved in receipt, despatch and counts Y
11	Are adjustments to inventory records approved by a properly designated official?	Y, warehouse manager
12	Is there adequate physical security surrounding inventories?	Y, secure warehouse
13	Is access to inventory locations limited by physical controls?	Y, secure warehouse
14	Is there enough insurance for significant inventories obtained?	Y
15	Does the person receiving the goods sign the good received note/suppliers goods despatch note as evidence of receipt?	Y

No.	Description	Y/N
16	Are the approved and completed goods received notes kept on file?	Y
17	Are pre-numbered tags/codes used during the physical inventories count?	N
18	Is access to the perpetual inventory records limited to authorised individuals?	Y
<b>Monitoring</b>		
19	Is a physical inventory taken at least annually?	N, monthly counts, most major lines included at least once in the year
20	Are perpetual inventory balances reconciled against the General Ledger control accounts at least annually?	Y
21	Does management periodically check inventory reports/ records?	Y
22	Are deviations of physical amounts to reported amounts followed up by management in a timely manner?	Y



## Appendix H – Email from CT Design Financial Controller

**To:** CT Design audit manager  
**From:** CT Design financial controller  
**Date:** 14 September 2015  
**Subject:** Draft trial balance for year ended 31 August 2015

As we discussed, I am attaching a draft trial balance as at 31 August 2015 to help you with your planning for the forthcoming audit.

I have been very busy working with the board on the changes to the Mint accounting system and the roll out of the new showroom app, including the resulting redundancies so I have not managed to make many of the year-end adjustments yet.

I have tried to record the revaluation of the properties at the board's request but other than increasing the cost to reflect the new valuation I couldn't remember from my studies how to treat the other side of the entry so I have put this in a suspense account now.

I also noticed when drawing up the trial balance that we 'spent' more of the warranty provision that was originally estimated at the end of last year so we have ended up with a debit balance on the account (as we settle warranty claims we debit the costs to the warranty provision account) – again I am not really sure what to do with this!

I hope this helps with the planning and I will supply you with a set of draft financial statements for the purposes of the audit when you commence the fieldwork, if you have any views on how I should deal with the items mentioned above I'd be glad to hear them.

Best regards

**1 Attachment**

**Attachment:****CT Design trial balance – 31 August 2015**

Account	<i>Dr</i>	<i>Cr</i>
	HK\$'000	HK\$'000
Revenue		300,987
Cost of sales incurred in year	129,874	
Distribution costs	26,008	
Admin expenses	51,741	
Finance costs	10,498	
Software development – cost	55,385	
Software development – accumulated amortisation at 31 Aug 2014		17,188
Leasehold properties – cost/revalued amount	3,270,300	
Leasehold properties – accumulated depreciation at 31 August 2014		276,826
Fixtures, fittings and equipment – cost	137,114	
Fixtures, fittings and equipment – accumulated depreciation at 31 August 2014		47,131
Rental furniture – cost	35,447	
Rental furniture – accumulated depreciation at 31 August 2014		23,069
Inventory – at 31 August 2014	20,598	
Trade receivables – gross	14,744	
Allowance against receivables – at 31 August 2014		176
Cash and bank	286,508	
Trade and other payables		16,745
Accruals and deferred income		4,120
Bank Loan		50,974
Warranty provision – current portion	2,543	
Warranty provision – at 31 August 2014		14,487
Issued share capital		150,000
Accumulated profit – at 31 August 2014		255,474
Suspense account		2,883,583
	<b>4,040,760</b>	<b>4,040,760</b>

**Notes:**

Leasehold property includes showrooms at revalued amount (per valuation report) and warehouse at cost (HK\$20m). Other accounting entries for revaluation are outstanding (resulting in suspense account).

Warranty provision was underprovided in prior year resulting in debit balance on current portion.

Year-end adjustments for depreciation, inventory, taxation and provisions have not yet been made.

## Appendix I – Minutes of HR Meeting: 17 July 2015

### HR department meeting minutes – 17 July 2015

**Attendees:** Frankie Ong (FO - MD)  
Zhang Jun (ZJ - CFO)  
Karen Ng (KN - HR Manager)

#### Background

The purpose of the meeting is to finalise plans for a redundancy programme to be implemented across the five retail sites following the implementation of the showroom tablet PC and app which have reduced the need for the number of showroom employees.

#### Actions (A), Decisions (D) and Information (I)

Description	A/D/I	By	Due date
Based on assessments and analysis in showrooms of employee utilisation rates carried out over the past two months, a reduction of 35% of retail store employees is to be made.	D	-	-
The criteria for selection of those employees who will be subject to redundancy will be based on historic performance and need for their current duties within each store.	D	-	-
Based on the criteria an initial list of employees will be drawn up and discussed and agreed with each store manager.	A	KN	31/7/15
Showroom managers must decide whether each employee subject to redundancy will (i) be made redundant with immediate effect (and paid their wages in line with their notice period) or (ii) have their employment terminated at the end of the contractual notice period (i.e. where the showroom manager wishes to retain some employees in order to help with the transition phase to a smaller employee base)	A	KN/ Showroom managers	14/8/15
After agreement with showroom managers the final list of employees and redundancy plans will be presented to the CT Design board for approval.	A	FO	21/8/14
Employees subject to redundancy will be formally written to, confirming their redundancy and inviting them to a face to face meeting with their showroom manager and a member of HR.	A	KN	28/8/15
The redundancy programme will commence and be rolled out, in accordance with plans agreed with showroom managers and is expected to be completed no later than 31 January 2016.	D		1/9/15 – 31/1/16
Employees who have been employed under a continuous contract for 24 months will be entitled to a severance payment. Under the Employment Ordinance, the amount of severance payment is two-thirds of the employee's last month's wages or two-thirds of HK\$22,500, whichever is lower, multiplied by the total number of years of service. The current maximum severance payment payable is HK\$390,000. Mandatory Provident Fund (MPF) scheme benefits based on the employee's length of service will be used to offset the severance payment.	I	-	-

## Appendix J – Letter from SolutionHK, Software Developers

October 2014

Board of Directors  
CT Design Ltd  
Kowloon Bay  
Hong Kong



### CT Design Ltd: Mint accounting system development

Thank you for inviting SolutionHK to supply software development services to CT Design, including the development of a mobile showroom application ('the showroom app') for use by customers as well as the associated software changes required to your Mint accounting system (i.e. sales/receivables ledger and perpetual inventory system).

We understand the concerns that you raised at our recent meeting regarding the controls that will be in place during this significant period of change. Notably you raised the issue of:

- (i) The controls that we will execute over the development of the software to ensure it delivers what you require
- (ii) How the software release programme will operate to ensure that disruption to the on-going business is minimised and in the event of issues arising that a "roll-back" position can be easily attained

These are important issues in software development and we are glad that you have raised them with us. We will of course provide a detailed project plan, including the controls to be implemented at each stage that is specific to this project. However, in the meantime I enclose a fact sheet regarding the software development methodology adopted by SolutionHK which should answer some of your questions.

Regards,

Daniel Jonson  
Software Development Executive

**Attachment:** SolutionHK software development methodology



## software development methodology

The change control process is critical to Solution HK's software development methodology. Any change is conducted as a sequence of steps proceeding from the client's initial request for a software change (development). Typical IT change requests include the addition of features to software applications, the installation of patches, and upgrades to network equipment.

### 1. Documenting the change request

When the client requests the change, that request is recorded, along with informal assessments of the importance of that change and the difficulty of implementing it. The documentation is shared with the client to ensure changes required are properly understood at an early stage.

### 2. Formal assessment

A formal assessment of the change is carried out and any risks identified and shared with the client, along with high level proposals as to how risks can be mitigated.

### 3. Planning

The team responsible for the change creates a detailed plan for its design and implementation, as well as a plan for rolling back the change (i.e. returning software systems to their previous state) should it be deemed unsuccessful. Where development allows a parallel run plan will be created.

### 4. Designing and testing

The team develops the software change and rigorously tests it. Testing will include a period of "user acceptance testing" where end users test the changes made to see if they are satisfactory. If the change is deemed successful, the team requests approval and a date for implementation.

### 5. Implementation and review

The team implements the program and stakeholders review the change. Implementation is often executed overnight when there are few or no users on the live system.

### 6. Final assessment

A final review of the development delivered is conducted with the client and a formal process for the identification of any "bugs" (things not working as they should) is kept open for an agreed period of time.