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Introduction

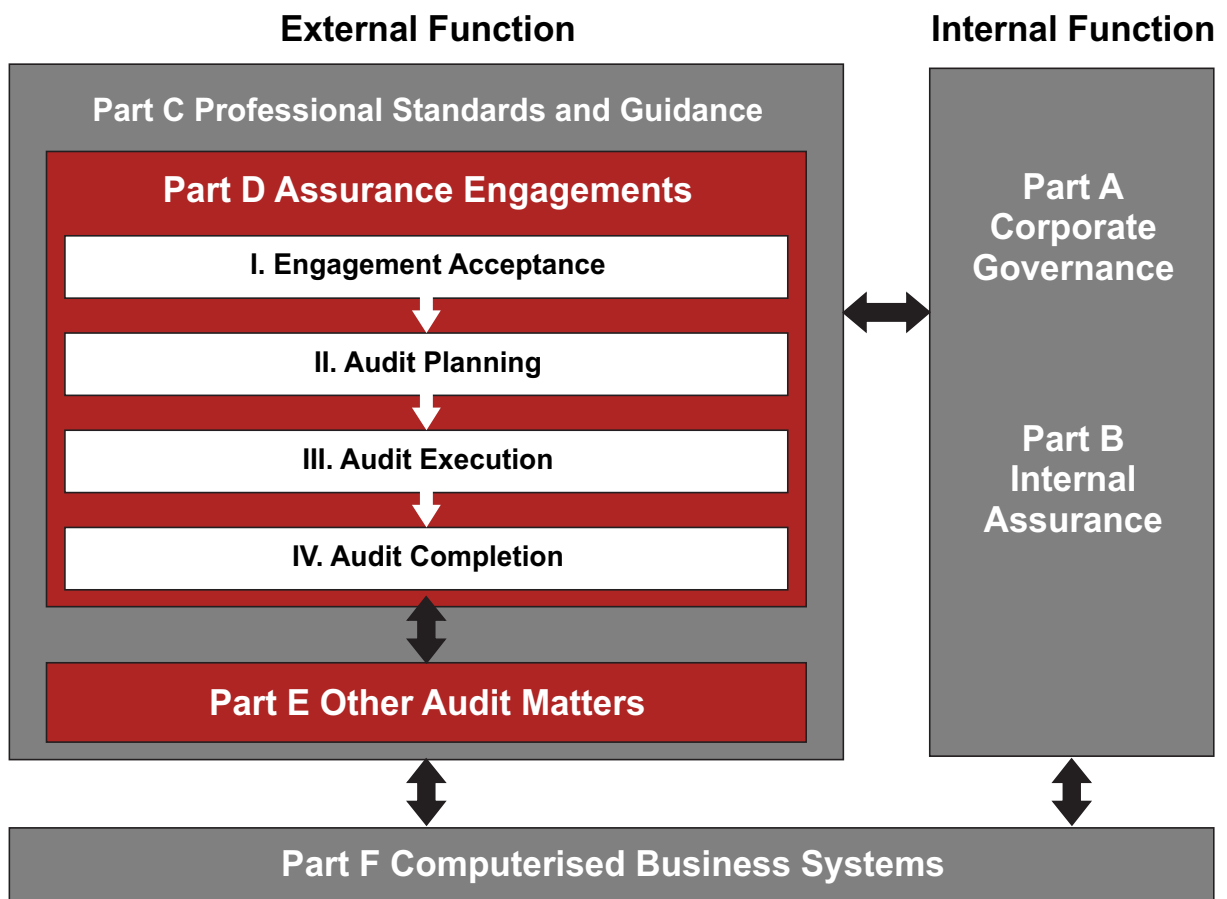
Module Aim and Structure

This module will enable you to perform effective assurance and related assignments. You will also understand the importance of corporate governance and be able to ensure if it has been effectively set up in an organisation.

The module is structured in such a way that it can achieve the module aim. The module structure displayed below starts with internal focus on corporate governance and internal assurance. It then extends to the external focus. The external focus follows the audit process, from engagement acceptance, audit planning and execution to audit completion. Activities of both internal and external assurance usually take place on an IT platform.

This module structure applies to both the Learning Pack and the module workshops to ensure a linkage between the module study materials and the workshop materials.

Overall Structure of Module C (Business Assurance)



Workshop Structure and Format

During Workshop 1, we first look at the corporate governance issue from the point of view of different stakeholders (internal assurance). We will then go through an audit journey in which we will experience the whole audit process (external assurance).

You will be working on case exercises during the workshops. Through group activities and discussion, you will look at how the auditing standards are applied to given case scenarios and how an assurance assignment is managed as a project in the business world.

Workshop Objectives

The workshop objectives include the following:

- Understand the needs and the relevant issues of various stakeholders in corporate governance and address them in accordance with the statutory requirement;
- Recognise conflicts or ethical issues and advise on appropriate actions;
- Identify potential risks in accepting or continuing with an audit engagement in the client acceptance procedures;
- Identify inherent risks based on an understanding of the client operation and environment, and evaluate the impact of risks on the financial statements and at assertions levels;
- Evaluate the internal controls of an organisation for their effectiveness;
- Evaluate the control system of an entity and identify control risks, including IT related risks;
- Exercise judgment to decide on an appropriate audit approach that can address the risks identified;
- Judge when to rely on the work of clients' internal audit function;
- Identify audit issues, evaluate their implications and resolve them;
- Perform the final review of the financial statements to evaluate the reasonableness of the financial statements;
- Determine and draft the appropriate audit opinion in various situations;
- Understand the project and audit issues in relation to a group audit for effective planning and management; and
- Be aware of the internal and external stakeholders' needs and be able to manage and address their expectations.

Development Indicators for Generic and Technical Competencies

The focus of the workshops is on formative development of skills, i.e. to train students to become future CPAs. A set of development indicators has been designed to encourage students to participate in the workshops and demonstrate the development of the intended learning objectives.

The purpose of the development indicators is to encourage you to:

- Prepare for the workshops;
- Actively participate and be engaged in the workshops; and
- Achieve the learning objectives by developing the technical and generic competencies.

It also allows the workshop facilitators to monitor the development of the students so that appropriate actions or counselling can be done.

As the learning objectives of each module are different, there will be different development indicators or criteria for different modules. There are core criteria, i.e. criteria that are common to all four modules, as well as some criteria which are specific to an individual module.

You are expected to demonstrate the following core criteria at each workshop:

- Be well prepared for the workshop by demonstrating a reasonable level of knowledge of technical content (i.e. contribute to discussion by offering relevant facts or information);
- Be punctual (i.e. arrive at the workshop on time and do not leave early except with the approval of the Institute or workshop facilitators);
- Work well with team members and workshop facilitators (i.e. interact with them in a constructive manner);
- Proactive participation (i.e. show willingness to take up roles in Group discussion and raise questions or express ideas/opinions appropriately); and
- Adhere to an ethical mindset and professional behaviour.

You are also expected to demonstrate the development of the following specific criteria for Module C:

- Reasonable understanding and ability to decide on an audit approach;
- Ability to evaluate the impact of risks on the financial statements and assertion levels;
- Ability to evaluate the control system of an entity and identify its control risks;
- Reasonable understanding and ability to resolve audit issues;
- An awareness of stakeholders' different interests and expectations, and the ability to manage them; and
- Ability to plan and manage a project.

Passing Criteria for Workshops

A two-scale system of performance comprising 'yes for demonstrated' (i.e. 'green light') and 'no for not demonstrated' (i.e. 'red light') is set up for each development indicator. Students must achieve at least 70% of the available indicators obtaining 'green light' for satisfactory completion of workshops. In quantitative terms, a student will need to retake the two full-day workshops of a module if more than 4 out of the 16 development indicators for two workshops have been marked as 'no for not demonstrated' i.e. 'red light'.

Satisfactory completion of workshops is a prerequisite to sitting the module examination i.e. students who fail to complete the workshop satisfactorily are not allowed to take the relevant module examination. In order to complete the workshop satisfactorily, you are required to attend the two full-day workshops and demonstrate your successful accomplishment of the workshop objectives, via active participation.

Your Role and Responsibilities as a Workshop Student

You are expected to:

- Follow your study plan, study the Learning Pack chapters (and other reference materials where appropriate) in accordance with the workshop coverage and prepare well for the workshops;
- Read the case materials and complete the pre-workshop exercises, if any, prior to attending the workshops;
- Be proactive in discussion and participation in group activities during the workshops;
- Develop your technical and generic skills through active participation in group discussion and activities; and
- Observe relevant rules of the workshops (e.g. be punctual for workshops and follow the instructions of workshop facilitators).

Workshop Materials for Students

Prior to the workshops, you will be given:

- This introduction booklet, providing general information on the workshops in particular the topic coverage and the corresponding chapter list in the Learning Pack, which are listed under *Workshop Outline and Learning Methodologies* below;
- Pre-workshop materials including the case background and exercises (if any); and
- The module Learning Pack.

During the workshops, you will be given:

- Additional case information; and
- Handouts (i.e. questions) for class work, which will be collected back at the end of each workshop.

Workshop Outline and Learning Methodologies

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

You are expected to have studied the relevant auditing standards, chapters of the Learning Pack and completed the pre-workshop materials (if any) thoroughly prior to attending the workshops. It is important for you to 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

The East Kowloon Showground (HK) Ltd

Background Information

The East Kowloon Showground (HK) Ltd ('EKS') is Hong Kong's largest exhibition, convention, concert and entertainment venue operating in the prime Hong Kong location of The East Kowloon Golden Strip. Construction of the purpose-built venue commenced in 2002 and the venue was completed and opened to customers in April 2005.

EKS's main customers are large organisations such as trade and industry associations, government departments, concert promoters (staging music concerts and shows) and large private companies hosting events for their own customers and staff.

EKS generates revenue from its customers through the provision of the following services:

- Rental charges for use of:
 - Exhibition halls for trade shows and fairs, industry conventions; conference halls and meeting rooms for company meetings ranging from large-scale meetings for entire company staff to smaller-scale meeting room hire.
 - The indoor entertainment venue for the staging of music concerts, award ceremonies and large-scale theatrical shows.
- Box office and ticket management services, for the sale of tickets to events being held at the venue. EKS has the capability to sell tickets on behalf of its customers at its box office located in the venue and through its own ticketing website. EKS generates revenue through applying a booking fee to each ticket sold.
- Catering:
 - Hospitality and event catering services for specific events designed around customers' individual requirements, operated by the in-venue EKS hospitality and catering teams.
 - Leasing of retail restaurant facilities, located within the venue, for operation by external companies.
- In-venue business centre and administration services, such as courier services, transport bookings, photocopying etc.

EKS – Financial and Corporate Structure

EKS was incorporated in 2002 through a partnership between The Kowloon Bank Co Ltd ('KBC'), Chan Kee Construction Contractor Limited ('CK Construction') and New Hoi Kee Property Investment Limited ('NHK Property'). EKS owns and operates the venue and KBC, CK Construction and NHK Property each holds equal shares in EKS. Each shareholder contributed varying levels of cash for the construction project. In addition CK Construction undertook the construction project and NHK Property transferred the rights to the land on which the venue was constructed, which it held under a long-term government lease.

The shareholders appointed a board of directors with experience of operating large entertainment venues:

- Chief Executive Officer (CEO) – Mr. Robert Tay
- Director of Business Development – Mr. Michael Bison
- Commercial Director – Ms. Marsha Choi
- Managing Director – Mr. Phillip Chan

Tendering and contracting processes

Customers wishing to make use of the venue usually approach EKS with an event specification, detailing dates, venue size, seating or exhibition stand layouts, catering needs and equipment requirements, for the event they wish to hold. EKS prepares a proposal document based on the customer's specification, including a price, for presentation to the prospective customer. In some cases EKS is invited to tender for the event contract and competes with other venues in Hong Kong to win the contract with the customer.

Standard proposals include a fixed price, for the provision of the services requested in the customer's event specification, and will also include a clause to cover unforeseen costs or variations to the customer's event specification that may arise during the course of the event. Examples of such variations might include changes to catering requirements, additional people attending the event or requirements for additional security measures. Variations to the event specification are payable by the customer, in addition to the fixed contract price, according to EKS's standard list price. When a proposal is accepted a contract is prepared by EKS's legal department and signed by the customer and EKS.

For music concerts and shows where tickets are sold to the general public, between 40% and 60% of the tickets will be sold through the EKS box office with the remainder being sold by the customer (referred to as a promoter) organising the concert. In these circumstances EKS pays over the revenue generated by its own box office from ticket sales for the event after deducting the fixed price included in the proposal document and any additional costs due from the customer/promoter agreed at the settlement meeting with the customer/promoter. EKS retains the booking fee which it charges to ticket buyers purchasing tickets through the EKS box office.

Example of how revenue is generated by EKS through a music concert

EKS and a concert promoter agree terms for a four-night concert booking at the venue. The agreed price for hire of the venue and related services is HK\$2,750,000. Seating capacity is 13,000 for each of the four performances. EKS agrees to sell 50% of the tickets at HK\$750 each and will also add a booking fee of HK\$50 per ticket. At the settlement meeting EKS and the promoter agree that further costs of HK\$275,000 were incurred and are payable by the promoter. All four performances were sold out.

EKS's revenue is calculated as follows:

	HK\$
Agreed price per proposal	2,750,000
Additional costs to be paid by promoter	275,000
Booking fees on tickets sold (13,000 × 50% × 4 × HK\$50)	1,300,000
Total revenue earned by EKS	<u>4,325,000</u>

The cash amount paid over to the promoter is calculated as follows:

	HK\$
Ticket sales generated by EKS (13,000 × 50% × 4 × HK\$750)	19,500,000
Less amounts due from promoter (HK\$2.75m + HK\$275,000)	<u>(3,025,000)</u>
	<u>16,475,000</u>

Service partners

Although EKS is able to provide a wide variety of services, associated with event organisation, to its customers some customer requirements may be particularly specialised or of such a scale that requires EKS to contract with its external service partners to fulfill the relevant parts of the event specification agreed with EKS's customer. EKS's service partners will provide services such as:

- Security and crowd management services
- Rigging, audio-visual and lighting
- Information technology logistics

Once a contract is agreed with a customer, EKS will then, where necessary, contract with its service partners to provide the services required for individual events based on the event specifications agreed with its customer. Contracts with service providers are either fixed price contracts or the service partner will invoice EKS for the services actually provided.

Trends in the Hong Kong exhibition, convention, concert and entertainment venue sector

Trends in this sector are closely linked to the fortunes of its customers. Discretionary spending by companies on exhibitions, conferences and company meetings is often reduced in response to economic uncertainty. The external environment has deteriorated significantly during 2014 with the stagnant economic conditions in the Euro zone, associated austerity measures reducing demand and a slow recovery in the developing countries. The outlook for Hong Kong's exports of goods is not optimistic and this may lead to a 'squeeze' on spend, by those companies affected, on 'luxuries' such as those provided by the exhibition and entertainment sector. In December 2014, the Hong Kong Purchasing Managers' Index (see Appendix E) showed a decline for the second consecutive month which suggests reduced confidence and a more conservative outlook from senior purchasing executives in Hong Kong.

Where companies do continue to spend, the sector is beginning to see a rise in the number of competitive tenders with fewer companies repeating business with their current event provider and instead seeking a better deal. Trade and industry associations are working to drive down costs to their members of exhibiting at trade fairs, to ensure they attract sufficient exhibitors to continue to offer compelling events to promote their own sectors.

In contrast, steady rises in inbound tourism, particularly from mainland China, and a less significant slowdown in local consumer spending than previously anticipated, mean that the sales of tickets to concerts, shows and exhibitions purchased by individual consumers are buoyant. Attendance figures at major cultural venues in Hong Kong in 2015 are expected to at least remain steady compared with 2014, with many venues predicting some increases on the prior year.

EKS Management

EKS has experienced rapid growth since it opened. This has been largely attributed to the management's ethos of providing the highest quality service and experience for its customers and consequently EKS has hosted many high profile events which have earned it international recognition as well as a number of industry awards.

The industry operates under a large number of health and safety regulations, compliance with which is regularly monitored by government departments. Relevant certification and licences to operate are required and where serious breaches of regulations are found the authorities have the power to either temporarily or permanently revoke licences. EKS management has put in place a number of policies to ensure the welfare and safety of those attending events at the venue and of staff, from both EKS and service partners. EKS has a team in place to ensure the continuous compliance with the relevant regulations and monitoring is carried out on a regular basis.

The tendering and contracting process is complex and EKS management retains tight control over the costing and pricing of tender proposals and the terms contained within the contracts. The following briefly sets out the key stages in EKS's proposal and contracting process:

<p>Preparation of proposal</p>	<p>Proposal prepared based on the prospective customer's event specification.</p> <p>Prices for services are based on a standard price list which is reviewed annually and amended for changes in EKS's costs.</p> <p>An event profit and loss forecast is prepared showing the anticipated revenue and costs.</p> <p>Proposals for large events and those in excess of HK\$4m (revenue) are reviewed and approved by the Director of Business Development and the Commercial Director.</p>
<p>Contract agreement</p>	<p>The contract is drawn up by the legal department.</p> <p>EKS has in place standard contracts, with, for example, standard credit terms.</p> <p>Any deviations from standard contract terms or significant changes to the proposal that are agreed with the prospective customer must be approved by the Director of Business Development and the Commercial Director.</p>
<p>Event management</p>	<p>Each event is assigned a project manager and project financial accountant.</p> <p>The project manager is responsible for the organisation and delivery of the contract according to the contract terms, including negotiating with any service partners required to deliver the contract.</p> <p>The project financial accountant is responsible for monitoring costs against the forecast prepared, including any variations to the event specification that will be paid for by the customer in addition to the contracted price. The project financial accountant is also responsible for ensuring that billing takes place according to the contract terms.</p> <p>The project manager and project financial accountant prepare a joint report each month in the lead up to the event which is reviewed by the board of directors. In the event that the project is not progressing according to plan, the project manager and project financial accountant are required to immediately prepare an exception report.</p>
<p>Event settlement</p>	<p>The project manager and project financial accountant hold a settlement meeting with the customer, after the event, to agree on additional costs incurred that are to be billed to the customer.</p> <p>Once the customer has been billed the credit control department is responsible for chasing any overdue debts and a standard credit control policy is in place.</p>

EKS current performance and future plans

The slowing of the world's economy has recently started to show in the profits of EKS. Customers are increasingly moving toward competitive tendering processes to achieve the best prices for their events and are negotiating strongly for discounts on the proposals presented by EKS. The number of event cancellations has increased during the past two years. This has been due to trade associations cancelling trade fairs and exhibitions due to a failure to attract sufficient numbers of exhibits. EKS has found it increasingly difficult to insulate itself against the risk of customer cancellations since customers usually refuse to accept cancellation clauses/penalties within their contracts and often threaten to move their business to alternative venues if EKS insists on such clauses/penalties.

In order to address the current threats to EKS's core business, the board has decided to begin diversifying the business to reduce its business risk. It has embarked on the following three initiatives during the year ending 31 March 2015, to achieve the desired diversification:

- In October 2014, EKS leased an additional piece of land adjacent to its venue and commenced construction of a luxury five-star hotel with leisure facilities. Management hopes the hotel will be used by individuals, including tourists, visiting the venue for specific events and by business customers seeking accommodation for their staff during company events or exhibitions and trade fairs. The hotel and leisure facilities are being constructed by CK Construction and are expected to be completed and opened in September 2015.
- Acquisition of the trade and assets of Tai O Country Golf Club situated adjacent to the land on which the hotel is being built.
- In 2014 EKS developed an innovative and unique system for the rapid assembly of flexible meeting spaces within the venue, called FlexPod, which it began using for customers' events in October 2014. No other venue has created such a system and EKS management plans to patent the FlexPod system with a view to manufacturing a number of FlexPods and then setting up a new division of EKS to sell this as a service to other large event venues around the world.

Sham Man Piu & Co

Your firm, Sham Man Piu & Co (SMP) has recently been approached by EKS to accept appointment as the external auditors of EKS for the year ended 31 March 2015. EKS management has told you that its previous external auditors do not wish to seek reappointment and that it is approaching your firm following a recommendation.

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

- Pages from shareholders' websites (Appendix A)
- Hong Kong Today – magazine article (Appendix B)
- Emails between Mr. Robert Tay, CEO and Mr. Eddie Wu, EKS Head of property services (Appendix C)
- EKS Internal controls and procedures manual for event revenue and receivables (Appendix D)
- Hong Kong Purchasing Managers' index web page (Appendix E)
- Email from Sally Brown, Head of EKS Internal Audit to Phillip Chan MD (Appendix F)
- Letter and report from Evan & Mason Patent Agent (Appendix G)

Additional information

Financial Information Extracts

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2014

	Note	2014 HK\$'000	2013 HK\$'000
Revenue	1	189,225	188,176
Cost of sales		(144,456)	(128,905)
Gross profit		44,769	59,271
Administrative expenses		(22,352)	(17,987)
Operating profit		22,417	41,284
Finance costs	1	(1,789)	(1,845)
Profit before taxation		20,628	39,439
Taxation		(3,167)	(5,982)
Profit for the year		<u>17,461</u>	<u>33,457</u>

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2014

	Note	2014 HK\$'000	2013 HK\$'000
ASSETS			
<i>Non-current assets</i>			
Property, plant and equipment	2	1,782,062	1,845,292
<i>Current assets</i>			
Inventories		16,147	15,784
Prepayments		21,717	21,461
Trade receivables	3	19,309	17,223
Cash and bank balances		<u>286,485</u>	<u>241,540</u>
		343,658	296,008
Total assets		<u>2,125,720</u>	<u>2,141,300</u>
EQUITY AND LIABILITIES			
<i>Equity</i>			
Issued share capital		2,000,000	2,000,000
Accumulated profit		<u>68,410</u>	<u>85,202</u>
		2,068,410	2,085,202
<i>Non-current liabilities</i>			
Long term borrowings		36,667	36,667
<i>Current liabilities</i>			
Trade and other payables	4	14,543	12,307
Taxation payable		6,100	7,124
		20,643	19,431
Total equity and liabilities		<u>2,125,720</u>	<u>2,141,300</u>

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2014

	<i>Issued share capital</i>	<i>Accumulated profit</i>	<i>Total</i>
	HK\$'000	HK\$'000	HK\$'000
Balance as at 1 April 2013	2,000,000	85,202	2,085,202
Profit for the year	–	17,461	17,461
Distributions to owners – dividends	–	<u>(34,253)</u>	<u>(34,253)</u>
Balance as at 31 March 2014	<u>2,000,000</u>	<u>68,410</u>	<u>2,068,410</u>

STATEMENT OF CASH FLOWS AT 31 MARCH 2014

	<i>2014</i>	<i>2013</i>
	HK\$'000	HK\$'000
<i>Profit before taxation</i>	20,628	39,439
Adjustments for:		
Depreciation	94,917	90,760
Interest expense	<u>1,789</u>	<u>1,845</u>
	96,706	92,605
Increase in inventory	(363)	(1,898)
Increase in trade receivables	(2,086)	(2,005)
Increase in prepayments	(256)	(4,030)
Increase/(decrease) in trade and other payables	<u>2,236</u>	<u>(5,185)</u>
	(469)	(13,118)
<i>Cash generated from operations</i>	<u>116,865</u>	<u>118,926</u>
Interest paid	(1,789)	(1,845)
Income taxes paid	<u>(4,191)</u>	<u>(6,188)</u>
	(5,980)	(8,033)
<i>Net cash from operating activities</i>	<u>110,885</u>	<u>110,893</u>
<i>Cash flows from investing activities</i>		
Purchase of property, plant and equipment	(49,887)	(51,827)
Proceeds from disposal of property, plant and equipment	<u>18,200</u>	<u>28,917</u>
<i>Net cash used in investing activities</i>	(31,687)	(22,910)
<i>Cash outflows from financing activities</i>		
Distributions to owners	(34,253)	(38,255)
<i>Net increase in cash</i>	<u>44,945</u>	<u>49,728</u>

Notes to financial statements for the year ended 31 March 2014

1 ACCOUNTING POLICIES**1.1 Basis of preparation**

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

1.2 Revenue

Revenue comprises the amounts earned from rental of exhibition, conference, meeting and concert spaces and associated services supplied to customers in the ordinary course of business. Income is also earned from the leasing of restaurant premises inside EKS's venue to third parties.

Revenue is recognised on the date on which a conference, exhibition, show or other event is held. Any deposits received from customers at the year end date relating to events due to be held after the year end are deferred and included within trade and other payables.

1.3 Finance costs

Finance costs comprise interest expense on borrowings.

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 their expected useful lives on the following bases:

Land and buildings	– 50 years
Leasehold improvements	– 15% or over the remaining term of the lease, whichever is shorter
Plant and machinery	– 12% straight line
Motor vehicles	– 20% straight line
Fixtures, fittings, computer and office equipment	– 20% straight line

1.5 Inventories

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

1.6 Trade receivables

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

1.7 Prepayments

Prepayments represent deposits and advance payments to suppliers for future supply of contracted event services. The credit-worthiness of suppliers is monitored in order to assess the recoverable amounts of prepayments and amounts are written down when evidence is obtained of future services not being received according to the original terms.

1.8 Trade and other payables

Trade and other payables include amounts owed to suppliers, accruals and deferred income representing monies received from customers in advance of the date of their event.

2 PROPERTY, PLANT AND EQUIPMENT

	<i>Land and buildings</i> HK\$'000	<i>Computer equipment</i> HK\$'000	<i>Fixtures, fittings and equipment</i> HK\$'000	<i>Total</i> HK\$'000
<i>Cost</i>				
At 1 April 2013	1,974,000	115,964	174,765	2,264,729
Additions	21,387	12,568	15,932	49,887
Disposals	(16,945)	(11,345)	(18,487)	(46,777)
At 31 March 2014	<u>1,978,442</u>	<u>117,187</u>	<u>172,210</u>	<u>2,267,839</u>
<i>Depreciation and impairment</i>				
At 1 April 2013	376,000	30,709	12,728	419,437
Charge for the year	37,000	23,698	34,219	94,917
Disposals	(13,780)	(987)	(13,810)	(28,577)
At 31 March 2014	<u>399,220</u>	<u>53,420</u>	<u>33,137</u>	<u>485,777</u>
<i>Carrying amount</i>				
At 31 March 2014	<u>1,579,222</u>	<u>63,767</u>	<u>139,073</u>	<u>1,782,062</u>
At 31 March 2013	<u>1,598,000</u>	<u>85,255</u>	<u>162,037</u>	<u>1,845,292</u>

3 TRADE RECEIVABLES

	2014 HK\$'000	2013 HK\$'000
Gross trade receivables	21,939	19,030
Allowance for receivables	(4,827)	(3,708)
	<u>17,112</u>	<u>15,322</u>
Accrued revenue	2,197	1,901
Trade receivables	<u>19,309</u>	<u>17,223</u>

4 TRADE AND OTHER PAYABLES

	2014 HK\$'000	2013 HK\$'000
Trade payables	10,909	9,847
Accruals, deferred income and customer deposits received in advance	<u>3,634</u>	<u>2,460</u>
	<u>14,543</u>	<u>12,307</u>

Appendix A – Pages from shareholders' websites

Chan Kee Construction Contractor Limited



Our Vision

To become Hong Kong's leader in large-scale commercial construction projects

Our Mission

Creating value for customers and delivering world-class quality services
 Delivering value to our shareholders through re-investing profits to generate growth and increase company value

Our values

Quality – Innovation – Service – Efficiency – Growth

THE KOWLOON BANK CO LTD



**A BETTER WAY
TO DO
BANKING**

THE KBC WAY

About Us

Can a bank that focuses on its social and environmental responsibilities also be profitable? Well, we do and we are.

We believe our future success is intrinsically linked to achieving a balance between our own interests, and those of society and the natural world. And our members agree.

We listen to members' opinions and build these into our business activities and our social and environmental agenda.

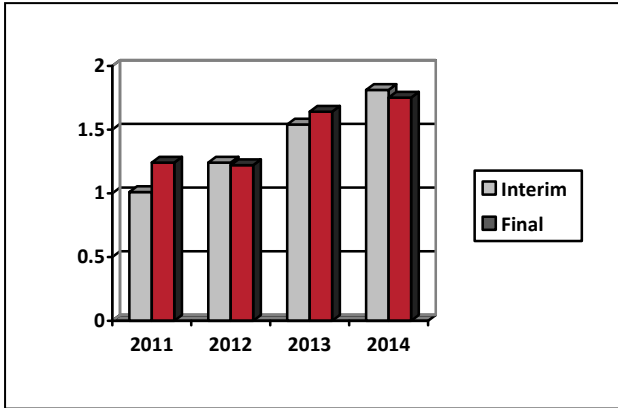
We believe in doing business, and banking, ethically. That is why we ask our customers and members where they would like to see their money invested ethically.

And our core ethical values run throughout our business extending to the way we look after our employees and deal fairly with our suppliers.

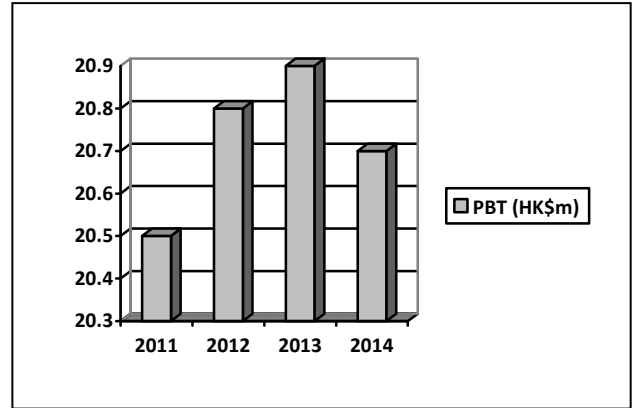


New Hoi Kee Property Investment

INVESTOR RELATIONS – FACT SHEET



Dividend per share (HK\$)



Profit before tax (HK\$m)

'This stock (NHK) is a strong contender for investors seeking an income portion to their investment portfolio. The dividend yield is good with steady profits meaning less risk around future dividend streams.' Star Investment Analyst, February 2015

Appendix B – Hong Kong Today – magazine article

East Kowloon Showground (HK) Ltd – Friend or Foe?

Since it opened its doors in 2005, EKS has been heralded a master-class in collaboration as this state of the art venue has attracted major trade conferences and international pop stars alike. Estimates of the overall contribution that this ‘super-venue’ has made to the local economy runs into tens of billions. But eight years on does everyone consider this venue giant a triumph? We interview four individuals to find out their personal views.



Mr. John Cheung is the Vice Chairman of the Hong Kong Electronics Industries Association.

“We have used EKS since 2006 to stage the annual consumer electronics industry trade fair. It has so much to offer with a column-free interior which allows us to be really creative with the space and the ability to configure the space to meet our exhibitors’ needs. It has been hugely popular with our members, not least because the high-tech specifications allow exhibitors to showcase their products to their full potential with minimum fuss and ultimately increase sales of their products.”



Ms. Karen Yung is the owner of The Moon Café near EKS.

“My family has been in the café business for many years and has owned our café on the East Kowloon Golden Strip since 1998. Our loyal customers still visit us but the variety of restaurants and shops inside EKS is a huge draw to tourists and day trippers and we have seen our revenues from these customers steadily decline since EKS opened. We also cannot compete on price as we simply don’t have the same buying power as this large organisation.”



Ms. Kim Ng is the Head of Environmental Strategy at HKAir, a not-for-profit think tank.

“The problem with ‘mega developments’ like EKS is that the true environmental costs are never taken into account. Whilst EKS themselves have implemented a green strategy within the venue, the environmental costs of the surge in visitors, flights, shipping etc are not measured. We only ever hear about the economic benefits of such programs and not the human and financial costs of dealing with increased congestion and associated pollution. We need to see more from these companies in terms of understanding their overall impact.”



Mr. Eric Wu is an Assistant Commissioner at the Hong Kong Tourism Commission.

“EKS adds tremendous value to Hong Kong’s economy through income and local jobs for the exhibitions industry and supporting sectors (e.g. retail and hotels; food; stand design and construction; and logistics). Exhibition arrivals from mainland China have risen rapidly with mainland China visitors to EKS accounting for 34% of all international visitors. This is important because mainland China exhibition visitors typically have amongst the highest per visit spend of all regions (HK\$16,761), 110% of the average.”

Appendix C – Emails between Mr. Robert Tay, CEO and Mr. Eddie Wu, EKS Head of property services

Re: Property revaluation and capital improvements

From: Eddie Wu, Head of Property Services

Sent: 15 March 2015

To: Robert Tay, CEO

Dear Robert,

Thank you for your email – I will seek to engage a property valuer with the requisite knowledge and experience as soon as possible and I understand the urgency of this matter in order to have an ‘answer’ for inclusion in the financial statements.

I also attach a summary schedule of the improvements to fixtures and fittings undertaken as part of the 2014/15 refurbishment program for inclusion in the financial statements at 31 March 2015.

Regards,

Eddie

Summary schedule of improvements to fixtures and fittings, undertaken by Chan Kee Construction Contractor Limited.

Program	Description	Cost (HK\$m)
EKS kitchen refurbishment programme	Upgrade of all kitchen equipment and fixtures	48.2
Meeting rooms refurbishment	Redecoration and re-carpeting of meeting rooms and replacement of meeting room furniture	37.9
Business centre refurbishment	Replacement of business centre reception desk and new partitioning for creation of meeting room spaces	<u>22.8</u>
		<u>108.9</u>

Property revaluation and capital improvements

From: Robert Tay, CEO

Sent: 13 March 2015

To: Eddie Wu, Head of Property Services

Dear Eddie,

We are coming up to year end and I am starting to get an early insight into how the financial statements may look. We are in discussions with one of our banks over a loan application and they may wish to review the financial statements as part of their decision. I am therefore keen that we present EKS's financial situation in the best possible light. Please could you therefore arrange for a valuation of the EKS property so that we can consider revaluing the property in the financial statements at 31 March 2015. You will appreciate that we need an answer to this quickly before we prepare the financial statements and the auditors arrive to complete their work.

Could you also provide me with a schedule of the improvements to fixtures and fittings which was undertaken as part of the 2014/15 refurbishment program? We will need this in order to include the improvements in non-current assets in the year-end financial statements.

Robert

**Appendix D – EKS internal controls and procedures
manual for event revenue and receivables**

EKS Limited
Internal controls and procedures manual
Event sales and receivables

Version: October 2014



Contents

- 1 Purpose of document
 - 2 Customer event specifications
 - 3 Proposal documents
 - 4 Contracts
 - 5 Billing and payment terms
 - 6 Contract and event specification variations
 - 7 Tenders and discounting
 - 8 Box office
 - 9 Credit control
 - 10 Revenue recognition
- Annex 1 Event specification checklist

1 Purpose of document

This document sets out the internal controls and procedures relevant to the management and accounting of event sales and receivables at EKS.

All staff employed in event tenders, sales and contract negotiations, revenue and receivables accounting and receivables collection management are required to adhere to the relevant controls and procedures set out in this document. Failure to do so may result in disciplinary action.

2 Customer event specifications

- All requests from customers for services should be requested in writing from the customer with the customer's event specifications clearly stated.
- A copy of the EKS standard event specifications checklist (see Annex 1) should either be offered to the customer, to support the documentation of its requirements, or completed by the EKS representative responsible for the customer relationship.
- All parts of the EKS standard event specifications checklist must be completed (to ensure no relevant event specifications are missing) and signed by both the customer and EKS representative.
- Specifications that do not fall within the EKS standard event specifications checklist should be documented separately and attached to the event specifications checklist.
- For services relating to exhibitions, trade fairs, concerts or other activities using the large exhibition halls or concert hall, an event specifications meeting must be held with the customer to ensure all requirements are clearly understood by both the customer and EKS representative.

3 Proposal documents

- The EKS representative should prepare a proposal document based on the event specifications received from the customer.
- The proposal document should include, in an appendix, the event specifications provided by the customer.
- The proposal document should clearly state the overall price for the services requested and the dates of the event.
- Pricing should be based on the standard EKS price list in force at the time of preparing the proposal document and a forecast profit and loss account should be prepared.
- Proposal documents and forecasts for exhibitions, trade fairs, concerts or other activities using the large exhibition halls or concert hall, or events with a price in excess of HK\$4 million, must be reviewed and approved by the Director of Business Development or Commercial Director before being sent to the customer.
- For proposals for exhibitions, trade fairs, concerts or other activities using the large exhibition halls or concert hall, or events with a price in excess of HK\$4 million, the EKS representative should request a meeting with the prospective customer to present and discuss the proposal with them.
- For proposals for smaller events, such as company meetings to be held in meeting rooms, a copy of the proposal should be both emailed and a hard copy couriered to the prospective customer.

4 Contracts

- For proposals agreed with customers, based on the initial proposal submitted to the customer by the EKS representative, a contract must be drawn up to secure the EKS services.
- The EKS representative responsible for the customer relationship must forward a copy of the agreed customer event specification, and any other relevant correspondence or documentation, to the EKS legal department.
- The EKS legal department will prepare a contract in standard EKS format, based on the agreed customer event specification.
- A draft copy of the contract is returned to the EKS representative for review and approval.
- Contracts for exhibitions, trade fairs, concerts or other activities using the large exhibition halls or concert hall must also be reviewed and approved by the head of the legal department and either the Director of Business Development or Commercial Director.
- Once the relevant approvals are obtained two copies of the contract, signed by the EKS representative must be sent to the customer for signing. One signed copy should be returned by the customer to the EKS representative.
- On receiving the signed contract from the customer, the EKS representative should notify and send a copy of the agreed customer event specifications to the following EKS teams:
 - Event scheduling department
 - Logistics department
 - Procurement department, where the agreed event specification requires the use of service partners
 - Project management office, to appoint a project manager to manage the event
 - Accounts department, to appoint a project financial accountant, set up a project account and schedule billings to the customer in accordance with the contract
 - Other departments, such as EKS catering team, where their services form part of the customer event specification

5 Billing and payment terms

- All contracts should adopt standard EKS standard billing and payment terms, unless approvals have been obtained otherwise (see section 6).
- The project financial accountant must set up a billings schedule for each event project in accordance with the contract terms and billings to customers must take place in accordance with the scheduled billing dates.
- Current standard billing terms are:
 - 20% deposit on signing of contract
 - 30% two months before event date
 - 50% on event conclusion
- Current standard payment terms are:
 - 30 days credit

6 Contract and event specification variations

(a) Variations to standard contract terms and standard pricing (prior to contract signing)

- All contracts should adopt standard EKS contract terms and pricing, including standard billing and payment terms, unless approvals (see below) have been obtained.
- Variations to standard contract terms may be made in the following circumstances:
 - Where the variation is requested by the customer and is required to secure the sale to the customer
 - Where the variation is commercially advantageous to EKS
- The reason for all variations to standard contract terms must be documented by the EKS representative responsible for the sale and approval must be obtained from the Director of Business Development and Commercial Director.

(b) Variations to contract and event specifications (after contract signing)

- Variations to the terms contained within signed contracts should only be approved in exceptional circumstances and only under the express authority of the head of the legal department and the Commercial Director.
- A revised contract should be drawn up by the EKS legal department and the procedures set out in section 4 regarding contract signing must be followed.
- Variations to customer event specifications before and during events are likely to occur frequently, EKS prides itself on its flexibility and therefore variations to event specifications requested by customers should be delivered where commercially and logistically feasible.
- The project financial accountant is responsible for documenting all event specification variations before and during the course of a customer's event.
- Documentary evidence of variations should be retained by the project manager and project financial accountant where possible, for example, emails or other correspondence with the customer, invoices from service partners etc.
- The project manager and project financial accountant must hold a settlement meeting with the customer within six weeks of the event concluding, to agree additional costs incurred resulting from variations arising.
- The additional amounts resulting from variations, agreed with the customer, must be documented by the project manager and sent to the EKS accounts department for billing.

7 Tenders and discounting

- Where EKS is involved in a competitive tender scenario, the tender team may conclude that discounting on standard pricing or some other variation to standard EKS contract terms is required to be competitive against other bidders. In these circumstances the procedures set out in section 6(a) of this document must be adhered to and in addition the tender team must:
 - Prepare a forecast profit and loss account which demonstrates the financial impact of discounting/variation in terms
 - Submit that forecast, along with reasons for the discount/variation for approval

8 Box office

- Monies received from ticket sales made on behalf of customers must be separately recorded in the EKS box office system and monies banked in an event specific bank account.
- A report from the EKS box office system must be provided to the event promoter at the event settlement meeting.
- At the event settlement meeting the following must be agreed with the event promoter:
 - Total amount of tickets sales made by EKS
 - Total amount due from promoter for variations to contract
 - Net amount due to be paid over to promoter
- The amounts agreed must be documented at the settlement meeting and the document signed by both the EKS project manager and event promoter.
- No monies should be paid to the promoter until a settlement is reached.
- Where a settlement cannot be reached with the promoter the matter must be immediately referred to EKS legal team.

9 Credit control

- Current standard payment terms are as follows:
 - 30 days credit
- The following procedures must be applied by the accounts department where customers pay late:


Payment overdue by:	Action
< 30 days	Reminder email
30 – 45 days	Reminder letter
45 – 60 days	Second reminder letter
> 60 days	Refer to legal team

- The project financial accountant for each event is responsible for preparing and sending monthly statements to each customer for which they are managing an event.
- The financial controller should review the aged receivables analysis on a monthly basis to identify slow paying customers and follow up with the relevant project financial accountant to ensure appropriate action has been taken.
- Where customers fail to pay deposits or billings made before the customer's event which are in accordance with the contract, the project financial accountant should advise the event project manager who will suspend work on the event until such time as the amounts are settled by the customer.

10 Revenue recognition

- The project financial accountant is responsible for ensuring that revenue on each event is recognised in accordance with EKS's revenue accounting policy, i.e.:
 - Revenue is recognised on the date on which the conference, exhibition, show or other event is held. Any deposits received from customers at the year end date relating to events due to be held after the year end are deferred and included within trade and other payables.
 - The project financial accountant is responsible for notifying the accounts department to release any deferred revenue, recorded prior to an event, to revenue in the income statement on the first day of the relevant event.
 - The financial controller should review a schedule of deferred revenue against a list of current event projects on a monthly basis and investigate any deferred revenue amounts which appear to be out of line with the list of current event projects.

Annex 1 Event specification checklist



EKS Event Specification Checklist
 Here is a guide to make sure our staff can help ensure every detail of your event meets your needs.

CONTACT INFORMATION

Planning Contact Name: _____	Event Name: _____
On-site Contact Name: _____	Organization Name: _____
Phone: _____	Address of Organization: _____
Email: _____	

MEETING INFORMATION

Event Date(s): _____	Hotel Requirements: Yes <input type="checkbox"/> No <input type="checkbox"/>
Event type: Exhibition <input type="checkbox"/> Conference <input type="checkbox"/> Meeting <input type="checkbox"/>	Start Time: _____
Concert/Show <input type="checkbox"/>	End Time: _____
Estimated Number of Attendees: _____	Setup By: _____
Number of FlexPod Rooms: _____	

VENUE SET UP


<input type="checkbox"/> Exhibition centre with stands <input type="checkbox"/> U-Shape <input type="checkbox"/> Crescent Rounds <input type="checkbox"/> Solid Square <input type="checkbox"/> Reception	<input type="checkbox"/> Theatre/Concert Stage <input type="checkbox"/> Conference/Board <input type="checkbox"/> Hollow Square <input type="checkbox"/> Banquet/Rounds <input type="checkbox"/> FlexPods: please state requirements: _____
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AUDIOVISUAL REQUIREMENTS

Check if needed	Amount needed	Type of Audiovisual Equipment	Check if needed	Amount needed	Type of Audiovisual Equipment
<input type="checkbox"/>	___	Projector/Screen	<input type="checkbox"/>	___	Easel
<input type="checkbox"/>	___	AV Presentation Cart (with power)	<input type="checkbox"/>	___	Extension Cord
<input type="checkbox"/>	___	Laptop	<input type="checkbox"/>	___	Power Strip
<input type="checkbox"/>	___	Internet Access	<input type="checkbox"/>	___	Ipad/tablet PC
<input type="checkbox"/>	___	Document Camera	<input type="checkbox"/>	___	Standing Lectern with Amplification
<input type="checkbox"/>	___	TV	<input type="checkbox"/>	___	Wireless Handheld Microphone
<input type="checkbox"/>	___	Exhibition stand	<input type="checkbox"/>	___	Wireless Lapel Microphone
<input type="checkbox"/>	___	DVD Player	<input type="checkbox"/>	___	Corded Microphone
<input type="checkbox"/>	___	Flip Chart	<input type="checkbox"/>	___	Conference Phone
<input type="checkbox"/>	___	Interactive Whiteboard	<input type="checkbox"/>	___	Video conferencing
<input type="checkbox"/>	___	Webcasting	<input type="checkbox"/>	___	Theatre lighting/rigging

CATERING REQUIREMENTS

<input type="checkbox"/> Hot Breakfast Buffet <input type="checkbox"/> Continuous AM Break Service (7:00 a.m. to 11:00 a.m.) <input type="checkbox"/> Lunch Buffet (11:30 a.m. to 1:30 p.m.) <input type="checkbox"/> Continuous PM Break Service (1:00 p.m. to 4:30 p.m.) <input type="checkbox"/> Dinner Buffet <input type="checkbox"/> Theatre food concessions <input type="checkbox"/> Exhibition centre food concessions <input type="checkbox"/> Private dining facilities <input type="checkbox"/> Bottled water <input type="checkbox"/> Teas & Coffees	EKS has a wide range of restaurant and catering facilities run throughout the venue by our restaurant partners. Please ask for contact details.
--	---

 Customer signature _____	EKS representative signature _____
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Appendix E – Hong Kong Purchasing Managers’ index web page



A BETTER WAY
TO DO
BANKING

THE KBC WAY

KOWLOON BANK CO LTD (KBC)

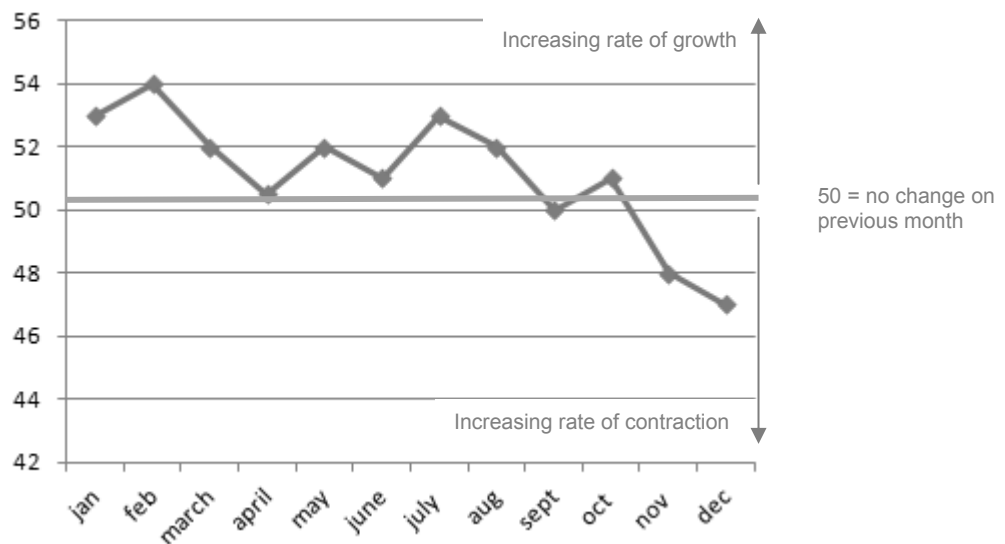
KBC has partnered with Dartar Limited, a global financial information services company, to combine Dartar PMI data with insights created by KBC’s network of economists.

The Purchasing Managers’ Index (PMI) is a long-established monthly data-driven snapshot of Hong Kong’s economy. Compiled using highly effective market research techniques (based on interviews with Hong Kong’s senior purchasing executives) which accurately measure economic activity and report well before other comparative official and government statistics.

Hong Kong – Summary Highlights for December 2014

- KBC PMI fell below the 50.0 ‘no-change mark’ for a second month suggesting further overall deterioration
- Marginal decline in private sector output
- Escalating cost of land or rent level
- Purchasing managers cited weak client demand and the economic crisis in Europe as impacting their businesses
- New business from mainland China fell for the second consecutive month
- Purchases costs and salary bills increasing faster in November

Hong Kong – PMI in 2014



Appendix F – Email from Sally Brown, Head of EKS Internal Audit to Phillip Chan MD

EKS internal audit review of event sales and receivables

From: Sally Brown
Sent: 31 March 2015
To: Mr. Phillip Chan

Dear Mr. Chan

As you know the internal audit team are close to completing the audit of EKS internal controls and procedures over event sales and receivables that you requested we undertake. The internal audit has covered the six month period to 31 December 2014 and as part of our audit work we sampled 148 events. I will shortly be issuing our formal report for review and comment by the EKS board; however, I felt that you would appreciate an early view of some of the issues we identified during our audit procedures which I set out in brief below.

If you have any questions please do not hesitate to contact me

Kind regards

Sally Brown
Head of Internal Audit

EKS internal controls and procedures, event sales and receivables Internal audit – key issues identified

- 12 instances of variations to customer event specifications which were billed to the customer without agreement or a settlement meeting being held
- 8 instances of overdue customer accounts (exceeding 60 days) which were not referred to the legal department
- No review of the aged receivable analysis undertaken when the financial controller is on leave/sick
- 23 instances of formal customer complaints of billings not in accordance with contract billing schedule – 14 incorrect timings, 5 incorrect calculation of amount, 4 both errors arising
- 10 instances of event costs continuing to be incurred on a project where the customer had overdue amounts on their account

Appendix G – Letter and report from Evan & Mason Patent Agent



Evan & Mason Patent Agent

19 November 2014

Ms. Marsha Choi
Commercial Director
The East Kowloon Showground (HK) Ltd
Colosseum Limited
East Kowloon Golden Strip
West Kowloon
Hong Kong

Dear Ms. Choi

Patent Advisory Report Re: EKS FlexPod patent

Thank you for engaging Evan & Mason to advise EKS and report upon the proposal to obtain a patent for EKS's FlexPod Exhibition system.

We look forward to presenting our findings to the EKS Board of Directors on 23 November and I am delighted to enclose some summary slides which we will discuss at our meeting prior to delivering our full report. I am forwarding these to you now to give the Board of Directors opportunity to consider any questions it may have.

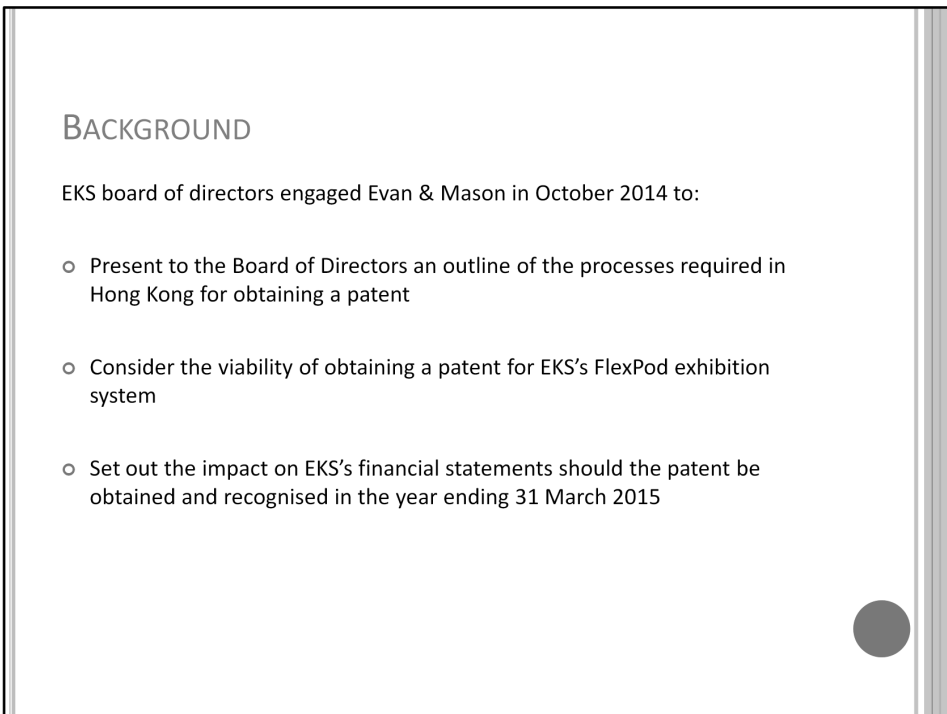
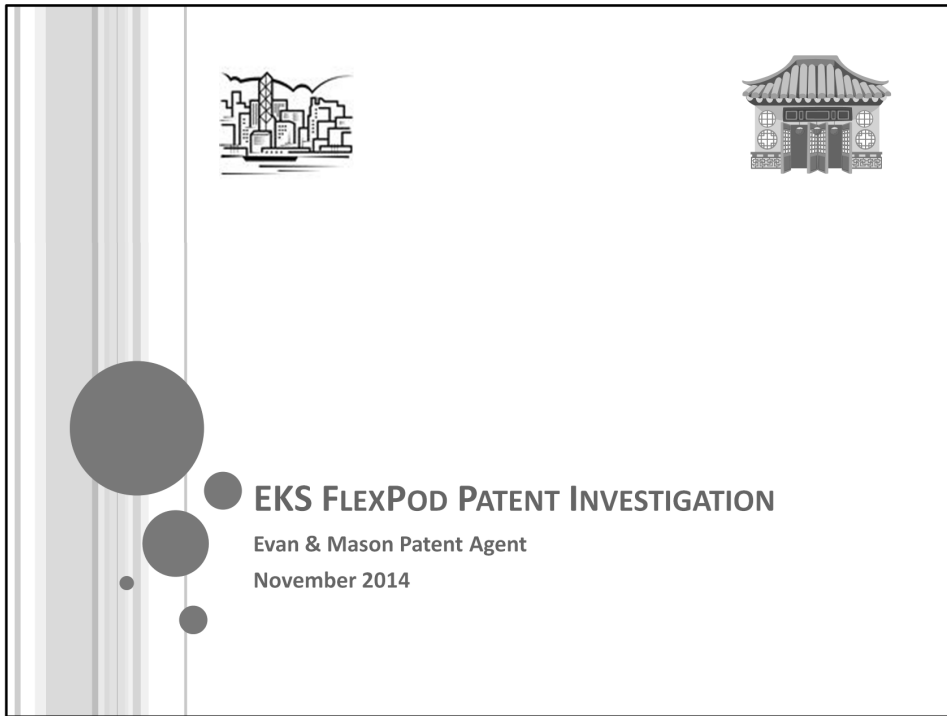
Our conclusions have been prepared on the basis of our extensive experience in the patent industry and on the information provided by you and other EKS employees that we have interviewed.

Yours sincerely,

JLee
Jane Lee
Senior Patent Officer

Evan & Mason Patent Agent, Suite 37B, Central Towers, 135 Main Road, Central, Hong Kong
Member of Hong Kong Institute of Patent Attorneys since 2013





WHY OBTAIN A PATENT

- A patent gives the inventor an exclusive right to use his invention.
- A patent protects your invention by giving you, the patent owner, a legal right to prevent others from manufacturing, using, selling or importing your patented invention.
- In the case of FlexPod this would allow EKS time to bring a commercial product to market with a reduced risk of FlexPod being imitated by other companies or individuals.

PROCESS OF ACQUIRING A PATENT IN HONG KONG

The following sets out the key considerations and steps for acquiring a patent in Hong Kong:

- Patent applications are sent to the Patents Registry of the Intellectual Property Department (HK IPD)
- Hong Kong's patent registration provides territorial protection only in Hong Kong
- There are two types of patent in Hong Kong: standard (20-year term) and short-term (8-year term)
- A standard patent will take approximately six months to obtain whereas a short-term patent will take approximately three months to obtain

VIABILITY OF OBTAINING A PATENT FOR EKS'S FLEXPOD EXHIBITION SYSTEM

In order for a patent application to be successful the invention needs to be:

- Capable of industrial application; and
- New; and
- Inventive; and
- Not belong to the excluded classes of inventions

EKS's FlexPod system

In the opinion of Evan & Mason, EKS's FlexPod system meets the requirements set out by HK IPD and given that few patent applications fail in the Hong Kong jurisdiction we believe a patent would be granted.

The greatest area of risk is around the criteria of 'new' given that EKS has already begun commercial use of the system within its own events premises.

IMPACT ON EKS'S FINANCIAL STATEMENTS

Conditions for recognition

In order to recognise a patent as an intangible asset in the statement of financial position of EKS the following conditions must be met. The asset:

- Is identifiable (i.e. capable of being sold separately)
- Is controlled by the entity
- Gives rise to probable future economic benefits
- Has a cost that can be reliably measured

These criteria would be met by the patent in question.

Initial recognition

Intangible assets, such as patents, are initially recognised at cost. The basic cost of Evan & Mason processing the patent application is HK\$1,000.

Subsequent revaluation

After initial recognition intangible assets shall be carried at a revalued amount, i.e. fair value, less accumulated amortisation. The revalued amount should be determined by reference to an active market.

