

SECTION B

3. Mr Wong has founded and managed Wai Fu Limited for more than 20 years. Mr Wong believes in exercising strict control over staff behavior and performance. He has introduced detailed work procedures and stringent rules and regulations. Very close supervision and severe punishments are imposed on staff to ensure their behavior and performance comply with the company's requirements. Furthermore, Mr Wong believes that, with such close supervision, there is no need to invest resources on staff training and development.

Over the last few years, a number of staff have left the company or retired. The education level and qualifications of the new recruits are generally better. Initially they were enthusiastic and often worked overtime for no extra pay. Later, they started to express dissatisfaction with their supervisors for strict staff control over minor matters, such as occasional late arrival of less than 5 minutes.

The number of customer complaints increased tremendously in the last two years, and the staff turnover rate reached 40% for the past 12 months. In addition, there has been a drastic drop in the company's sales and profits.

Mr Wong's son, David, has recently returned to Hong Kong from the US to take up the management of the company. After studying the situation carefully and meeting with some staff, David concludes that the company is faced with the problem with low staff morale and its first priority is to change the style of staff supervision.

David also proposed that training and development should be provided to all staff over three years but is not sure about the approach of offering the programs. He is told that hiring the service of training consultancy firm would require an immediate payment of \$320 000 for the contract. Alternatively, if a professional trainer is employed to provide in-house training, the following payments (all made at the beginning of the respective year) will be required:

First year:	\$100 000
Second year:	\$110 000
Third year:	\$120 000

4. Starlight Hotel is a four-star hotel situated in Kowloon City near the former airport. The hotel offers more than 300 guest rooms, 6 restaurants and bars, as well as other entertainment facilities. With its strategic location, the hotel enjoyed a high occupancy rate. After the relocation of the airport from Kowloon City to Chap Lap Kok, the occupancy rate of the hotel has dropped over the years. Last year, the hotel recorded a net loss in its operation.

Raymond Kwok, General Manager of the hotel, is eager to turn the situation around. With the introduction of 'Individual Visit Scheme' and the recovery of long-haul travel, Raymond is still optimistic about the hospitality industry in Hong Kong. During a management meeting, Raymond asked Winnie Chan, Marketing Manager of the hotel, 'Do you have any suggestions that can turn our situation around?'

'One of the problems we are facing is the fluctuating demand. Since the occupancy rate of our hotel is satisfactory during peak periods such as the Golden Weeks in July and October, I think the key to increase our profits is to boost the sales during off-peak periods,' Winnie replied.

'It sounds reasonable. Apart from improving our occupancy rate during off-peak periods, we could develop a

membership scheme to boost the sales of our food and beverage outlets. Guests who have paid a yearly membership fee can enjoy discounts and other privileges in our restaurants and bars,' Raymond suggested.

2011 DSE Practice Paper

SECTION B

7. Moon Flower is a small travel agency established eight years ago specialising in selling travel related products and making travel arrangements for business and individual travellers. Daisy, the sole owner of Moon Flower, makes all the major decisions and relies only on ad hoc meetings to communicate with her employees. As a result, staff in the firm get used to waiting for Daisy's instructions and follow closely her work orders. Moon Flower has been growing steadily with the recent increase in people travelling abroad. However, as the level of manpower is more or less the same as eight years ago, the workload of staff has become very heavy and most staff need to come to the office early in the morning and leave late at night. Although overtime payments are paid to the front-line employees in addition to their basic salary, they are dissatisfied and complain about overwork and underpayment compared to the industry average. Some of them have even started looking for new jobs and plan to leave the firm. In addition, there seems to be a lack of coordination among employees, which leads to frequent delays of work and some key corporate accounts left unattended. Complaints over the poor service of the firm are increasing and employees are busy handling angry customers. Daisy is very worried about the situation. She tries to establish a manpower plan and revise the existing compensation system to cope with the problems. In view of the potential growth in the business, Daisy also considers expanding her business by establishing a website and setting up new branches in other districts. Apart from the Small and Medium Enterprises (SME) Development Fund, Daisy wants to explore other sources of funds for the operations and expansion of the business. Therefore, she starts to analyse the firm's financial position and prepare a cash budget.

8. Century Group is a large local manufacturer of consumer electronics with a mission to provide entertainment to as many people as possible. With the growing popularity of interactive electronic games, the Group has developed a four-dimensional (4D) portable electronic game device. In a management meeting, Mr Lam, the Chief Executive Officer, said, "After spending several years on research and development (R&D), it's time for us to reap our rewards and be the leader in the market."

Ms Ho, the Marketing Manager, responded, "To launch the new product, we need to develop effective marketing strategies. As the 4D portable electronic game device is in the introductory stage of the product life cycle, we have to select our target market carefully and formulate appropriate marketing mix strategies. According to my preliminary analysis, the new product can be marketed as a high-priced version which targets high income professionals, or it can be marketed as a low-priced version which targets the general public." The estimated net cash flows of the two versions are presented in the following table:

	High-priced version \$ (in millions)	Low-priced version \$ (in millions)
Year 0	-100	-70
Year 1	40	30
Year 2	60	50
Year 3	80	80
Year 4	50	60
Payback Period	2 years	?

Mr Lam said, "Your analysis reminds us that we have to be aware of the financial implications of launching the new product. Since we have already spent a vast amount of capital on the R&D of the new product in the past few years, if we further spend a considerable amount of money in marketing the new product, the pressure on capital would put our Group into a tight financial situation. As our Group is not able to undertake both versions, we have to choose one of them. I would choose the low-priced version."

Mr Fok, the Financial Manager, remarked, "I think financial control is important. Say for example, although the purchase price of raw materials and the wage rate of our employees were the same as budgeted, the actual spending on these two areas substantially exceeded the budgeted spending in the last financial year."

2012 DSE 2B Paper

SECTION B

- 6 Mr Li is an experienced chef who has worked for several five-star hotels in Hong Kong. Two years ago, Mr Li established a French restaurant called Platine in Tsim Sha Tsui. Platine offers a good selection of traditional French cuisine and wines in a spacious environment. As Mr Li likes eating fine food, almost all the ingredients and wines of the restaurant are imported from France.

Platine's profits were satisfactory in the first year after its commencement. However, sales declined and losses were incurred in the last few months. To turn the situation around, Mr Li has employed a management consultant, Mr Sze, to analyse the restaurant's problems.

After a thorough investigation, Mr Sze thinks that high inventory cost, such as the inventory cost of oysters, is one of the reasons for the losses. The past sales records show that Platine sold 400 dozens of oysters each week. Oysters were ordered in dozens and the ordering cost was \$800 per order. The average holding cost per dozen oysters was \$16 per week. As oysters are almost the favourite dishes provided by Platine, it is restaurant's practice to order 600 dozen oysters each time to avoid shortages. Hence, many oysters have to be disposed of, leading to an unnecessary cost to the restaurant. In view of this, Mr Sze suggests that the restaurant can adopt the Economic Order Quantity (EOQ) model to reduce its inventory cost.

Mr Sze explains the fluctuation in the exchange rate of the Euro also have a great impact on the restaurant's profits as most of its ingredients and wines are imported from France. He then mentions that hedging is a method commonly used to manage such risk.

Finally, Mr Sze comments that fine food quality and nice dining environment are not enough to keep customers as they consider a lot of factors in making their purchase decisions. Mr Sze suggests that Mr Li should make use of the marketing concept in operating his restaurant and at the same time develop effective marketing mix strategies to enhance its competitiveness.

7. Skyline Airways is a long-established listed company based in Hong Kong. The company has a wide network serving travellers all over the world. Over the last decade, the company has gained a reputation and its earnings were satisfactory.

At a regular meeting, the Customer Relations Manager reported that there had been an increase in the number of customer complaints against crew members. The Human Resources Manager commented, "Our company policy and working conditions are among the best. The salary and welfare of the crew members have been improving, making our compensation packages more competitive than the other airline companies. However, the supervisors tend to be conservative in appraising employees, so only a small number of crew members get promoted. This may adversely affect their morale."

The Financial Manager raised other concerns, "We are in period of economic fluctuation and rising oil price, which may affect our profits. Unfortunately these risks are uninsurable. Also, more and more travel agencies delay their payments. As we rely quite heavily on agencies' sales, it seems that there is a need to review and tighten the existing credit policy."

The Chief Executive Officer (CEO) added, "Apart from the above problems, we are now facing increasing risks and challenges as a result of rapid environmental change. Even though the company is able to maintain its business, exploring ways to expand and diversify our business is of great strategic importance. Therefore, we are now planning to take over a flight catering company which involves a substantial amount of money. On top of the cash reserve, we need to find other ways to obtain more funds for the takeover."

The meeting ended with the CEO's request for a proposal from the top management on the issues raised, which would be discussed at the next meeting.

2013 DSE 2B Paper

SECTION B (50 marks)

Answer **ALL** questions in this section.

1. Yummy Group is a listed fast food chain in Hong Kong, established by Mr Lee twenty years ago.

In a meeting, Mr Lee said, "I want to discuss two issues today. First, as discussed before, the fast food market is saturated, so is it time for us to diversify our business? Second, in view of the recent incidents of food poisoning in some local fast food chains, we have to formulate strategies to manage this risk."

The Marketing Director, Miss Ma said, "People in Hong Kong are now more health conscious. Instead of focusing our business on fast food, we can diversify our business to the health food like fresh fruit juices, salads and sandwiches using organic ingredients. Unlike in our fast food chain, there would be waiters in these restaurants to serve the customers. I have conducted some preliminary studies and found that the middle-class should be our target customers. I have also generated many initial ideas on the menu and will conduct a market research to help sorting out those alternatives that are feasible."

Mr Lee said, "You have done a good job. However, are you sure that the middle-class is an effective market segment for us? Do we segment is new to us, we have to find ways to promote the organic food restaurants"

Miss Ma remarked, "Based on the criteria for evaluating a market segment, the proposed segment is the most

effective. Since the segment is new to us, we have to find ways to promote the organic food restaurants."

The Finance Director, Mr. Fung responded, "Setting up such a new line of restaurants requires a substantial amount of capital. We will need at least \$100 million. As our group has used up almost all retained earnings, we don't have enough capital for this project."

2. Wing Hung is a locally-based department store chain established seventy years ago. Mr Richard Li, son of the founder, took over the business forty years ago. He is going to retire and plans to pass the business to his son, Raymond. He has asked Raymond to visit the stores and study the business.

After several store visits, Raymond reported his observation to Richard, "I think our employees lack initiative and their service quality fails to meet today's standard. It seems that they have to follow rigid rules in carrying out their duties."

Richard responded, "I do it this way on purpose. I believe that close supervision and motivation by money are the keys to our success. I pay them salaries at a higher rate than the market level. They are required to listen to my instructions and stick to the existing practices. You should follow my management style in order to be successful."

Raymond replied, "You may be right, maybe we can consider other monetary compensation methods to motivate our employees to perform better. We can also provide some training to enhance their quality of service. In addition, as on-line purchasing is very popular nowadays, we should launch an on-line shopping system. According to my estimation, the initial installation will cost \$12 million and the net cash flows would be \$4 million per year for a useful life of four years."

Richard replied, "Very good. The payback period of the project is short! We can get back the investment very quickly."

Raymond said, "Using the payback period method alone to evaluate the project is not appropriate, we need to calculate its net present value as well."

2014 DSE 2B Paper

SECTION B (36 marks)

6. Grassland is a major wholesaler in Hong Kong which sells bedding products to department stores and specialty stores.

At a regular meeting, Ricky, the Marketing Manager, said, 'Since we are facing keen competition and aggressive competitors, we have to put in more effort to keep a close and long-term relationship with retailers so that our business can be maintained. We should devise some measures to encourage retailers to carry more of our products. It is equally important to improve and increase the variety of our products. But this depends on whether our merchandisers can source high-quality suppliers and negotiate the best possible terms with them.'

Steven, the Human Resources Manager, responded, 'We may have to change our existing policy of across-the-board salary increment for all merchandisers. To motivate them to perform better, we may consider linking the

increment with their individual performance. We would then have to keep track of their performance, but the existing performance appraisal does not have a formal procedure for this. We need to set up a formal performance appraisal system to assess their individual performance more accurately. At the same time, we should provide them with specific training and development programmes to equip them with better sourcing and negotiation skills.'

Thompson, the Finance Manager, said, 'We will need extra funds for the training programme and the development of the performance appraisal system. The recent financial report reveals that our cash position is tight. I think there are some problems with our cash conversion cycle and we must improve our cash flows by managing the working capital more effectively.'

7. Petal Airways is a listed airline company in Hong Kong. The company carries passengers to more than 40 countries. Its high-quality service is respected worldwide.

In a management meeting, Andy, CEO of the company, said, 'Nowadays, more and more customers like to patronize budget airlines. As budget airlines account for only 5% of the aviation market in Hong Kong, this segment has good potential. We may set up a budget airline with a new brand to capture this business opportunity.'

Billy, the Marketing Director, replied, 'That's a good idea! A budget airline can make long-haul travel accessible to young people who have a low income but like to travel abroad during their vacation. Apart from individual consumers, we may also serve business customers as some firms which transport cargo to overseas countries frequently would like to lower their costs. Of course, we have to take note of the differences between the consumer market and the business market. Above all, we must master the key to the success of a budget airline, that is, making profit by keeping costs low. It may be helpful to adopt e-marketing strategies to achieve this purpose.'

Carol, the Finance Director, had reservations and said, 'Establishing a budget airline involves at least \$100 million. The largest capital expenditure item is the purchase of planes. Almost all our retained earnings have been used up, so I'm afraid our company does not have enough funds to buy planes.'

Andy replied confidently, 'Don't worry! The interest rate is now very low. We can take out a short-term loan to purchase the planes. Given our good relationship with banks over the years, they would be very willing to grant such a loan to us. More importantly, the risk to the airline business is higher than many other industries. We have to manage our risks well while keeping our costs low.'

2015 DSE 2B Paper

Section B

5. Lucky Company Limited (Lucky) is a health food producer established in Hong Kong ten years ago. It sells to retailers such as supermarkets and specialty stores, and runs its own retail stores. In view of the keen competition and rising operating costs, Alan, the General Manager, called a meeting to discuss the following suggested measures to improve profitability:

- tighten up credit policy
- freeze the salaries of all employees

- introduce strict control over salespeople's work behaviours

Billy, the Finance Manager, agrees to the suggestions and said, "We have high level of bad debts which makes it difficult to meet short-term obligations. We have been offering very generous terms to retailers. We now need to tighten up our credit policy."

Calvin, the Marketing Manager, added, "We should not rely on our retailers to boost sales. We'd better launch more promotions directly to the consumers to stimulate sales in our own retail stores."

Daisy, the Human Resources Manager, was concerned about the last two of the suggested measures, saying, "Our absenteeism and turnover rates are increasing and many staff are not willing to work hard. Freezing their salaries may worsen the situation. I also wonder if strict control over the salespeople will be effective. Shall we consider giving them some non-monetary rewards?"

6. Sunlight Fitness is a fitness chain set up by Peter with the mission of providing customers with excellent fitness experiences. Its centres are equipped with a **range of advanced equipment suitable for customers of all fitness levels**. Benefiting from the healthy living trend in Hong Kong, the company has enjoyed good sales and profits in the early years of its operation.

The fitness service industry has become more competitive in recent years and the growth in sales and profits of Sunlight Fitness has slowed down. Its financial data of 2013 and 2014 is extracted below:

	<u>2013</u>	<u>2014</u>
	\$'000	\$'000
Sales	30 000	35 000
Net profit before tax	9 000	9 450
Total assets (as at 31 December)	12 500	17 500

In a management meeting, Peter said, "Although our sales and net profits are increasing, the net profit margin has decreased. Shall we calculate the total assets turnover as well to find out more?"

Paul, the Centre Manager, said, "At the same time, we are receiving more and more customer complaints. They complained about the long queues to use the fitness equipment during peak hours. In addition, they are unhappy with the cleanliness of the centre, especially when they find other users' sweat stains on the equipment. Customers also said that trainers are difficult to book, even though the trainers are often found chatting with customers."

Mary, the Marketing Manager, remarked, "To increase our competitiveness and outperform our competitors, we must enhance our service quality. I have also noticed that beauty services are increasingly patronized by male customers in Hong Kong. I believe the market of beauty services for men has good potential as it's now in the growth stage of the product life cycle."

Paul responded, "I agree with you! We can set up a beauty centre to provide skin and beauty care services to male customers. We will introduce the safest and most advanced equipment and recruit experienced beauty consultants through interview."

Peter queried, "Is interview really an effective means of choosing the right applicants?"

2016 DSE 2B Paper

- 6 Ming Kee is a small Hong Kong supermarket chain established fifteen years ago. Owing to keen competition and rising costs, the chain has not been able to earn very good profits recently. Sometimes, there are also problems maintaining good liquidity. Paul, the Managing Director, called a meeting to discuss ways to deal with the current situation.

David, the Finance Manager reported, "Although all our sales are in cash, we are still having a liquidity problem. This may be due to slower inventory turnover for a lot of items and our inventory turnover ratio is below the industrial average. Take beverages as an example, the past sales records show that our chain sold 500 boxes each month. We currently order 600 boxes each time. The ordering cost is \$5625 per order and the average holding cost per box is \$10 per month. To improve the situation, I suggest using the Economic Order Quantity model to reduce the inventory costs. We should also put more effort into marketing to speed up the turnover of the slow-moving stock."

George, the Marketing Manager responded, "Sure, we will have more promotions to stimulate the sales of the slow-moving stock. I also believe that the 'online to offline' (O2O) trend will bring us more opportunities. We can develop an online shopping platform for customers to make purchases online and then they can pick up the goods they ordered in our stores. When the customers get their goods in our supermarkets, they may buy other goods as well. Also, a much larger variety of goods can be displayed on the online shopping platform and customers can shop without time constraints. This project looks feasible and should have a quick payback that won't worsen our liquidity."

David raised a concern, commenting, "The project idea sounds good but we should use the Net Present Value method for a more accurate evaluation of the investment."

Paul considered the project to be promising and asked the managers to start the project.

- 7 Centralwash is a company providing dishware cleaning and sanitizing services to restaurants in Hong Kong. It has advanced dishwashing equipment to help restaurants maintain food safety, boost operational efficiency and minimize costs.

The company picks up dishware from restaurants, cleans and sanitises the dishware, and delivers it back to its customers. After operating for years, the company has gained a reputation in the industry. However, the sales growth of the industry recently started to slow down.

In a management meeting, Peter, the Managing Director, said, "I note that many competitors have been entering the market recently. Some weaker competitors have been forced to drop out of the market. Price competition is popular. We have to find some ways to enhance our competitiveness and maintain our profits. In order to understand more about the needs of our customers, we can collect some secondary data for analysis."

Billy, the Marketing Manager, responded, "I think secondary data may not be useful to us."

Daisy, the Human Resources Manager, commented, "We are now employing a team of sales people to sell our service to target customers. The company could provide off-the-job training to them so as to improve their job skills and hence increase the success rate of personal selling."

Billy agreed and said, "We are also facing the problem of frequent damage to dishware, which may bring losses to us. Would it be possible to insure against the risk?"

Mary, the finance manager, responded, "I am afraid that this risk may not be insurable."

2017 DSE 2B Paper

SECTION B (36 marks)

Answer **ALL** questions in this section.

- 5 Marco is the owner in the form of a sole proprietorship of an eyewear retail chain, selling different brands of glasses. Currently, the chain has 11 retail stores all over Hong Kong, and has 30 administrative staff and 60 salespersons. To grasp the opportunity offered by market expansion, Marco wants to open more branched in the coming five years. He is considering various ways to finance his expansion plan.

In a meeting, Daisy, the Marketing Manager reported, 'According to research, the market demand for eyewear is increasing. Customers are more willing to spend money on trendy and high class eyewear. We have already put

more resources into advertising in the past three months. I believe that this marketing strategy has helped bring in new customers.'

David, the Finance Manager agreed, 'With increased advertising, our sales have increased substantially.'

John, the Human Resources Manager responded, 'I am pleased to know that the sales performance has improved. However, our recent staff appraisals show that many salespersons are not satisfied with their jobs. In fact, their salary level is higher than the market rate. We have also offered long-term employment contracts and comprehensive benefits to them. We may need to find other ways to improve their morale.'

Marco asked, 'Besides enhancing salespersons' morale, what else can we do further increase sales?'

Daisy replied, 'Many companies have started implementing a customer relationship management (CRM) system to help increase sales to existing customers. Shall we also introduce a CRM system to achieve this goal?'

John added, 'If we decide to adopt a CRM system, then we have to recruit a manager to lead this new project. We may consider appointing the customer relationship manager through internal promotion.'

6. King's Restaurant, an international catering chain, has been operating in Hong Kong for a few decades. Its market position is to provide customers with innovative catering services at an affordable price. Its sales and profits have been growing steadily. However, the chain has recently been troubled by complaints about its deteriorating service quality.

In a meeting, May, the Marketing Manager said, 'We are facing keen competition in the catering industry, so it is important to maintain our service quality. However, we have received complaints from customers that the dining environment is unpleasant and some waiters are rude. Sometimes customers need to wait for a long time to be served.'

The Finance Manager, Simon, responded, 'Our revenue is growing at a decreasing rate, and improving our service quality will certainly boost sales.'

The Information Technology Manager, Danny, suggested, 'Some restaurants in other countries have started using robots to take orders and deliver dishes to customers. We should conduct a feasibility study on the introduction of this technology.'

May said, 'I agree with adopting the robotic system as it can provide innovative service which matches our market position. We could do market research to explore whether customers would accept robot service in general. I suggest sending questionnaires to all customers in our membership scheme to collect their views on a robotic system.'

The Managing Director, Peter, queried the reliability of the information collected from questionnaires. He wanted to examine the project's feasibility from the financial perspective.

After the meeting, Simon estimated that the initial outlay for the robotic system would be \$4 000 000, with a project life of 3 years. The cost of capital would be 6%. Taking into consideration the annual expenses incurred and savings in labour costs, the net cash flow generated by the robotic system would be \$1 420 000 per year.

2018 DSE 2B Paper

SECTION B (36 marks)

Answer ALL questions in this section.

5. The Food Truck Pilot Scheme was initiated by the Hong Kong Government in 2016. It aims to enhance the appeal of tourist attractions and provide diverse, creative and high quality food to tourists and the public. Robin, an experienced chef in a hotel, is planning to join the scheme to sell desserts. The food truck will be operated by him and his family members. Recently, he discussed his plan with his friend, Martin, who is running a chain of restaurants.

Martin said, 'You may need to look for financing through a bank to fund the startup and operations of the business.'

Robin responded, 'With hard work over the past years, I have saved around \$1 000 000 which can be used as the

initial capital for the business. My brother is a professional accountant. He pointed out that as the operating cycle and the cash conversion cycle of a food truck are relatively short, there would be sufficient cash flows to operate the business.'

Martin said, 'That's good! In the meantime, you should draft a business plan for the food truck business to get a complete picture of what is involved in setting up the business. In your plan, you should include various budgets for your business. Though it may be costly and time-consuming to compile a budget, and there are some limitations of using budgetary control, it helps with many managerial functions.'

Robin responded, 'I heard that the marketing concept is also important for the success of a business, so I would like to segment the market. However, as the operational locations of the food truck rotate and are assigned by the government, I am afraid that the market is difficult to be segmented based on geographical location.'

Martin suggested, 'Except geographical location, you can also segment the market on other bases.'

6. Sun Fung Company is a fast-growing logistics firm which delivers packages of various sizes from the Mainland to Hong Kong. Patrick, the Managing Director, called a meeting to discuss changing the remuneration system and improving the operational efficiency of the company.

Johnny, the Finance Manager, suggested, 'I think that our staff belong to the Theory Y type. To motivate them, we should change the remuneration system by freezing their basic salary and introduce a bonus based on the company's annual accounting profit and the staff's performance appraisal results. Then, they will face more challenges and their income will be linked to the company's performance. They will earn more by performing better, which will lead to a win-win situation!'

Patrick wondered, 'Are there any disadvantages of such a new system? Will our staff support this change?'

Rose, the Human Resources Manager, responded, 'Don't worry! Our staff are positive, energetic and willing to take up responsibility. They will support the proposed change in the remuneration system. I am actually more concerned with another issue: the working environment is too harsh for some front line workers. Some of them even quit their job because of back injuries and muscle pain. We should find ways to deal with this problem.'

Patrick responded, 'I was inspired by a technology exhibition in Germany and I am planning to install robotic arms in the workplace which can help lift bulky packages and enhance worker efficiency. Johnny, have you conducted the appraisal of this project?'

Johnny reported, 'The accounting rate of return of the project is estimated at 12%, which is higher than the company's required rate of return, and its net present value is -\$100 000.'

Patrick asked, 'The accounting rate of return is higher than the company's required rate of return, but the net present value is negative. Should we accept the project then? Any other non-financial factors that we should consider?'

2019 DSE 2B Paper

SECTION B (36 marks)

Answer ALL questions in this section.

5. Fortune Cinema is a private limited company which operates five cinemas in Hong Kong. To take advantage of the market opportunity brought about by the rapid development of technology, the cinemas will be renovated. Four-dimensional (4D) and virtual reality (VR) effects will also be introduced.

In a meeting, Robert, the Managing Director of the company, said, 'I am pleased to announce that our cinemas will enter a new era by introducing 4D and VR effects. Francis, have you done the analysis for the project? Could we finance the renovation project using a bank loan, as in the past?'

Francis, the Finance Manager, replied, 'The renovation project will cost \$10 million and its internal rate of return is 8%. Currently, we rely on the company's reserves and borrowing from banks to support our operations. As our gearing ratio is much higher than the industry average, we should not borrow further from banks. We should find funding from the existing and new shareholders instead.'

Mary, the Marketing Manager, added, 'The introduction of the latest technology will definitely enhance our competitiveness. We may also consider implementing an electronic marketing system to sell movie tickets and maintain a customer database. This could help increase our sales. We may also set a high price for the tickets at the beginning in order to recover the renovation cost as soon as possible.'

6. Speedy Company is a fast-growing company which sells sports equipment and accessories in Hong Kong. Currently, the company has six retail stores and 40 staff. After reviewing the mid-year report of the company, Jeff, the General Manager, was disappointed with the performance of the company. He called an urgent meeting. In the meeting, Jeff asked, 'Our actual sales revenues for the last six months are far below the budgeted figures. Can anyone tell me the reasons? Are there any remedial actions we can take?'

Patrick, the Marketing Manager, replied, 'We have already launched several advertising campaigns to enhance the image of our brand. To further boost our sales, we need to formulate other promotional strategies.'

Lucy, the Finance Manager, said, 'I guess we may have an unfavourable sales-volume variance because our main competitor opened several retail stores nearby in the past few months. I will conduct a detailed analysis and report to you next week.'

Annie, the Human Resources Manager, said, 'Our sales performance may be affected by the staff turnover. The staff turnover rate is at a record high this year. Recently, I talked to the staff who left the company. They appreciated the fact that we provided them with attractive remuneration and comfortable working environment. However, they complained that they had stayed in the same position for a long time and done the same job following rigid instructions. They felt bored.'

Jeff said, 'We should look for ways to motivate the existing staff and fill the vacancies as soon as possible.'

Annie replied, 'You are right. To fill the vacancies, we have recruited ten fresh graduates as sales trainees. We will provide training to them soon.'

Jeff asked, 'Shall we provide on-the-job or off-the-job training to them?'

2020 DSE paper

SECTION B (36 marks)

Answer ALL questions in this section.

5. Happy Café is a coffee shop chain famous for its brewed coffee. It operates 10 branches in Hong Kong and has about 100 employees, including baristas, waiters and administrative staff.

In a meeting, Francis, the General Manager, said, 'Our turnover has dropped significantly due to intensified competition, which increases the risk of operating losses. We should adopt different risk management strategies -1-6 deal with this risk. Besides, we have to find ways to boost sales.'

Annie, the Marketing Manager, responded, 'Recently, many of our customers switched to the new fruit-tea shops which have opened nearby. This has created more competition. To boost sales, we will analyse factors affecting the buying decisions of customers and find ways to enhance customer loyalty.'

Jeff, the Finance Manager, added, 'Stimulating sales can prevent our coffee beans from becoming expired. The data shows that our annual demand for coffee beans has dropped from 8 600 kg to 7 300 kg. We have to pay more attention to inventory management and come up with a new re-order level.'

Sammi, the Human Resources Manager, said, 'Some new waiters will join our shops next month. Most of them are young and inexperienced. We will organize internal communication programmes to help them to adapt to the new working environment.'

6. Sum Kee is a wholesaler of electrical appliances in Hong Kong. After reviewing the financial statements of the company for the year ended 31 December 2019, Henry, the General Manager, called a meeting to discuss the performance of the company.

In the meeting, Henry presented the following financial information for 2019:

\$

Credit sales	25	180	000	
Cash sales	10	860	000	
Credit purchases	18	346	500	
Cash purchases	657	000		
Average trade payables	1	089	400	
Trade payables turnover (industry average)				8.2 times

Henry was concerned and said, 'During the past few years, our sales revenues have been increasing steadily. However, our cash balance has been declining. I am afraid that we will run out of cash very soon. What should we do to avoid this?'

Mark, the Finance Manager, responded, 'Improving our cash position is the most important short-term target. We will do a ratio analysis to see whether we can improve our cash position by managing the different components of the working capital.'

Henry said, am optimistic about the local economic environment. We should plan in advance to further boost the sales.'

Ricky, the Marketing Manager, responded, 'Agree. We will conduct marketing research to collect information from retailers, so that we can formulate an appropriate marketing strategy.'

Allen, the Human Resources Manager, added, 'We will arrange off-the-job training for the salespersons next month. This can improve their performance, which will help to boost sales.'

2021 DSE paper

SECTION B (36 marks)

Answer ALL questions in this section.

5. Sara Company is a well-known manufacturer of children's clothing, with more than 10 retail outlets in Hong Kong. Recently, it has been planning to expand its business by manufacturing and selling toy cars.

At a regular meeting, the Marketing Manager suggested doing marketing research using stratified random sampling to better understand the preference of parents before designing the toy cars. The Chief Executive Officer agreed and remarked that the initial selling price of the toy cars should be lower than that of its competitors.

As toy-car manufacturing is new to the company, the Chief Executive Officer emphasized that the selection of materials and the design of the toy cars must be done carefully. He was a bit worried about the safety issues associated with the toy cars and wondered whether the risks could be transferred to a third party by taking out insurance.

The Human Resources Manager raised a concern about the morale of the salespeople. According to the employee survey results of the company, the salespeople were dissatisfied with the laissez-faire leadership style of their supervisors. They complained that they frequently had to handle tasks beyond their job scope and were disappointed that only certificates had been given for good performance. The Chief Executive Officer believed that the salespeople belonged to the Theory X type and urged the Human Resources Manager to find ways to improve their morale.

Finally, the Chief Executive Officer proposed setting up an e-shop to sell the products. He asked the Finance Manager to evaluate whether this project was worth investing in. The Finance Manager estimated that the e-shop would initially cost \$3.5 million and would generate \$1 million of cash flows bi-annually in the coming two years.

6. Tasty Company sells cookware. One of its popular products is an electronic cooking plate which has various functions including hotpot, making pancakes and grilling meats. In view of the steady growth in annual sales, Andy, the General Manager, is planning to open a flagship store in Tsim Sha Tsui in late 2021.

A management meeting was called to discuss the plan. The financial information for 2020 is shown below:

	\$ million
Annual sales	170
Total operating costs	45
Total capital	50
Total liabilities	16

Andy said, 'I am happy to see the high net profit ratios in recent years. I believe that the opening of the flagship store will bring us promising returns in the future.'

Peter, the Finance Manager, added, 'Our total assets turnover for 2018 and 2019 was 2.4 times and 2.5 times respectively, which was higher than the industry average. We will report the total assets turnover for 2020 in the next meeting. However, because of the opening of the flagship store, the total assets turnover for 2021 will probably drop. Also, it is estimated that the payback period of the flagship store investment project is three years.'

Andy said, 'We can take out a 1-year bank loan to finance the project.'

Peter responded, 'From the financial perspective, I would suggest sourcing the funds in other ways.'

Susan, the Marketing Manager, said, 'Our major customers are young ladies who always browse the Internet to get information. To reduce costs, it's a good idea to adopt e-marketing by cooperating with key opinion leaders (KOLs) on different social media platforms.'

Lucy, the Human Resources Manager, was concerned about the workload of the management team. She said, 'I propose promoting one of the branch managers to senior manager to lead the operations of the flagship store.'

Andy replied, 'I think we should source suitable candidates for the post of senior manager via headhunters instead.'

2013 HKALE QUESTIONS & ANSWERS 必看好重要

Section B

5 Mr Wong has been running a Hong Kong style cafeteria, Wong Kee, for more than 30 years. It is located in an old residential district and Mr Wong knows almost all his customers by name. Wong Kee is particularly well known in the neighborhood for its egg tarts. Recently, the landlord informed Mr Wong that the rental would increase threefold. As Wong Kee would not be able to survive such high rental, Mr Wong turned to his son, Tony, who works in a large consultancy company, for advice.

Tony said, "Every business in Hong Kong is paying high rent. They should try all possible means to increase the utilization of shop space to cover the rental cost."

Mr Wong said, "Wong Kee is already full during breakfast, lunch and dinner. How can we increase our revenue? The new rental is not negotiable, so I think we'll have to move to another site. Maybe to a new town where the rental should be lower."

Tony responded, "Moving to a new site would affect your stakeholders. The impacts need to be assessed before you make that kind of move."

Mr Wong said, "Running a cafeteria is very difficult nowadays. Apart from rental, we also have to face ever increasing labor and foodstuff costs. Maybe I should close down the cafeteria and try something new. Recently, I saw new shops selling frozen yogurt near some schools. They are small and the operation is essentially self-service. Customers get the frozen yogurt from a machine and pick their favorite toppings. Then they pay for the whole thing according to its weight. All you need is to install the equipment and hire a cashier. The market for young people is very promising and the shops look like they are doing well. I've been in the catering business for a long time. I'm sure I can do better if I set up a frozen yogurt shop like that. I just have to charge a lower price than my competitors."

Tony commented, "If you really set up a frozen yogurt shop, you're entering a new market and providing new products at the same time. You have no experience in this business, so it's quite risky. You have to really know the differences between the new market segment and the one you're serving now. You also need a new set of marketing mix to cater for the new target market."

6. David formed a retail company called Carry-Easy with Edmond and Fanny two years ago in order to target the increasing number of visitors from the Mainland. They then set up a shop in a well known shopping mall near a railway station selling middle-priced suitcases.

In a meeting, David said, "Sales have been good and our customers are often in a hurry when they come to buy suitcases. We need to carry very large inventories to meet their demand, so our inventory cost has been very high."

Edmond said, "If the assumptions of the Economic Order Quantity (EOQ) model are fulfilled, we can apply it to lower our inventory cost. Take our most popular brand as an example: We sell 600 suitcases per month (自

己要計全年需求即是乘 12) and the estimated ordering cost is \$2,000 per order plus carrying costs of \$20 a case per month. (全年需求即是乘 12) So based on this, we can easily find out the EOQ through a simple equation." Fanny said, "As well as cutting inventory cost, we might also consider entering the high-end market 高檔 to increase profitability. We could sell more durable suitcases with more secure locks to protect our customers from thefts. Our salespersons should be trying harder to convince customers to buy high-end products."

David responded, "Right now our salespersons are quite passive and don't do much selling. What's more, the personal selling process for the high-end market is more complicated and our salespersons aren't used to handling this type of customers. We need to provide systematic training if we want to proceed with this plan. We also have to consider whether to adopt on-the-job or off-the-job training."

Edmond said, "I think training would be useful to improve their personal selling techniques. By the way, all the staff in the shop are now paid by fixed monthly salaries. Should we replace our current compensation system with one that pays a basic salary plus individual commissions to motivate the salespersons?"

David said, "The individual commission system may create its own problems."

7. Peter graduated with a master's degree in Mathematics three years ago and formed a partnership with two friends, Paul and Mary, to run a mathematics learning center for primary students called Fun Fun Maths. He hopes to realize his dream of helping young children to learn mathematics in an interesting and enjoyable way.

Fun Fun Maths turned out to be very successful due to Peter's relentless efforts and devotion to student's well-being. To meet the booming demand, two more branches were established last year. However, Peter found that he had too much administrative work to do and felt he was losing touch with the students. He became worried about the teaching quality and had a meeting with Paul and Mary to discuss his concerns.

Mary said, " Each branch would be held accountable for its own earnings. We could put in place a mechanism so that the employees would share the net earnings of that branch. So they would be motivated to improve quality and increase profits at the same time."

Peter replied, "I don't expect our staff to work solely for money. Our tutors are mostly young people and self-motivated. They value what they can do for the children more than monetary rewards. But they're very sensitive when they're criticized. They're the sort of people who would quit immediately if they get offended."

Mary remarked, "They get offended when they think they're unfairly treated. As long as we set good objectives for them, they should not be easily offended."

2007 HKALE

SECTION B

- 7 Hong Bau is a bakery that has been operating in Hong Kong for more than 20 years. In recent years, it focused on producing 'healthy bread' which is mixed with new ingredients such as sweet potatoes for additional nutrition and flavor in the bread. Hong Bau does not run its own retail outlets but distributes mainly to major supermarkets and some independent cake shops. The supermarkets often ask for large discounts and long credit period though they seldom delay or default on payments. On the other hand, the independent cake shops can provide higher profit margin but always delay or even default on payments.

In a meeting, the general manager Agnes suggested, 'We have to be more selective in choosing independent cake shops to reduce payment delays or default.' Betty the financial manager remarked, 'You know, if we can take measures to reduce the accounts receivable substantially, the situation will be much improved.'

Carol the marketing manager warned, 'Your ideas are good but I want to remind you that our sales will inevitably be hurt if we take harsh measures against the independent cake shops. I think the better solution in the long run would be to build up our own outlets. There are some existing cake shop owners who would like to sell their businesses. By acquiring these cake shops, the collection problem can be partly relieved.'

Betty argued, 'Acquiring existing cake shops would add a lot of risks to our company. I'm not sure how it would affect our business, but financial risks should not be overlooked. We should scrutinize their books of accounts carefully. In this connection, ratio analyses could be very useful.'

Agnes said, 'Acquiring existing cake shops could present opportunities as well as risks to us in terms of business operations. Some risks could be prevented or insured while others could not. The issue is whether it is worthwhile to take on those non-insurable risks.'

- 8 Skydome is a supermarket chain with a few warehouses and about 50 stores located in different districts in Hong Kong. Inventory management used to be a big problem for Skydome. Warehouse staff had to specifically record the amount and location of various inventory items and spend much time on searching for those that had been mislocated.

Last year, Skydome introduced the radio frequency identification (RFID) technology in its warehouses. With RFID, inventory items can be located through wireless radio signals and the computer records updated instantly. After the warehouse staff had taken time to adapt to the new technology and equipment, warehousing controls were made simpler and costs were lowered. The RFID technology also facilitated internet shopping at Skydome. In the past, internet orders could at best be delivered on the following day. With RFID, delivery can now be made within 3 hours of an order and customers are generally happy with the quicker delivery.

Although inventory control has improved in the warehouses, the management of Skydome is still concerned about the number of expired items found in the stores. George the general manager said, 'Customers will get angry and complain when they find that they have bought an expired item. We must achieve "zero expired items" no matter how laborious it is to check the expiry dates of all the items in the stores. RFID has helped a lot to reduce the chance of sending out expired items from the warehouses, hasn't it?'

9. Wa On is a retail chain specializing in selling drugs, toiletries, cosmetics, health food and sundries. The chain has more than 10 stores located in different districts in Hong Kong. Each store has a store manager, a supervisor, two cashiers, a pharmacist and some salespersons. In the past, all staff of the chain were paid fixed salaries.

The stores operate mainly on a self-service basis and the salespersons were only responsible for stocking the shelves and responding to customers' enquiries. Recently, high-priced slimming products became the major profit contributors to the chain. In order to boost sales, the salespersons were assigned the additional task of actively selling such products. They were given special training on selling skills and the product information of slimming products. In addition, commission was awarded on the sales of the slimming products on a monthly basis. These measures turned out to be very effective motivational means and some salespersons were able to earn commission nearly three times their basic salaries. Nevertheless, the change has also led to dissatisfaction among other staff. They complained that the sales of the slimming products were not only due to the efforts of the salespersons and hence, the commission should also be shared by other staff.

The management team held a meeting to handle the complaints. Paul the marketing manager started, 'I don't understand why those who are not directly engaged in the selling of the slimming products should claim any rewards.' Mary the operations manager replied, 'The request for sharing the commission among all staff is consistent with the basic principles of TOM (Total Quality Management).'

Peter the human resource manager suggested, 'Would it be possible to change the commission to an annual bonus based on the overall sales of individual stores, and the staff of each store be rewarded equally?' Mary said, 'Peter's suggestion might create problems. Besides, sales should not be the only indicator of staff performance in their stores. The total bonus of a store should be based not only on its sales but also non-monetary aspects such as customer satisfaction and operating efficiency of the store.'

SECTION B

6. Diana Wong, a public relations manager in a five star hotel in Hong Kong, felt very disappointed with the manners of people on social occasions. She found that many Hong Kong people talk rudely, not to mention those who do not know what table manners mean. Moreover, the majority of people do not dress properly for specific social occasions. Thus, Diana decided to quit her job and establish a school for social manners. She has two limited partners, Eddie and Flora. For detailed planning, a meeting was held among them.

Diana started, "There should be a large potential market for this kind of school. Businessmen, professionals, wealthy people, students and even kids don't want to be embarrassed on social occasions and they need to know the 'Dos' and 'Don'ts' on different occasions. The problem is, among all these diversified market segments, which segment or segments we should focus on."

Eddie replied, "Well, there are different marketing strategies that we could choose to adopt to deal with diversified market segments. Meanwhile, we also need to consider our internal situation and decide what we should do for this kind of training, which is at the introductory stage of the product life cycle."

Flora said, "In fact, apart from deciding on target markets, we also need to determine our marketing mix so that we can explore our target market successfully."

Eddie added, "We have to carefully design our marketing mix strategies to make sure that they are suitable for the training in social manners which is only at its introductory stage."

7. Upon retirement, Mr Au set up a restaurant in the end of 2003 in an old building near Central with a lease for five years. It initially targeted the low price segment owing to the lean economic environment at that time. Since the economic recovery of 2004, business at Mr Au's restaurant has been quite stable. As the renewal of the lease approaches, Mr Au started to worry because the rentals in the neighborhood have increased mostly by two to three times. At the same time, people have become better off and are looking for better places to enjoy their meals. Faced with all these changes, Mr Au discussed the future of the restaurant with his family.

Betsy, Mr Au's daughter and the restaurant manager, said, "Despite all the threats, we should not overlook the opportunities as people now have more money to spend. All we need to do is to reposition our restaurant to target the higher income white collar workers. In fact, we hired an experienced chef and renovated the place two years ago in order to upgrade our restaurant. Unfortunately, these measures failed to increase sales revenue and I find that people keep criticizing our service."

Mr Au replied, "I have told the waiters to be nice and friendly to our customers as we heavily rely on repeated purchases. However, they haven't improved much yet."

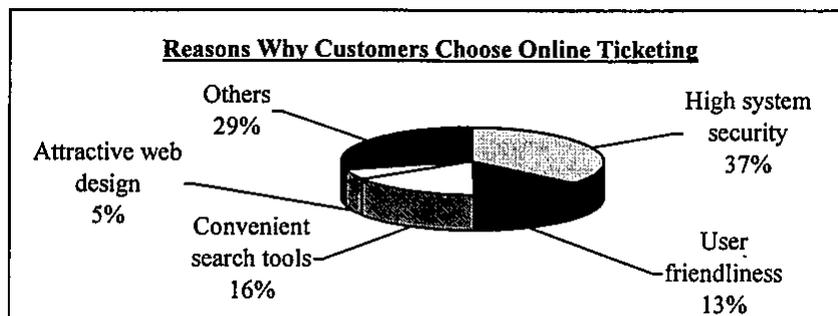
Betsy said, "We have to introduce some human resource strategies so that the existing staff will improve their service."

Mr Au responded, "We may try those strategies but there is no guarantee we can attract the higher income white collar workers. Frankly, I am quite tired of running a business. My idea is to sell the restaurant business and use the proceeds for investing in the stock market. I have contacted some interested buyers and obtained an offer of \$1.5 million for our restaurant business."

8. Sino Airlines is one of the largest commercial airlines based in Hong Kong. It has an approximately 25% market share in the Hong Kong airline industry and operates flights to most of the big cities in the world, including those on the Mainland. The management team met to discuss a series of expansion strategies.

Peter, the marketing manager, started, "Currently more than 80% of our tickets sales is made through travel

agents. Why don't we increase direct sales through promoting the use of our online ticketing system? I have done an online survey with the existing online customers asking them the reasons why they purchased their tickets online. I listed four options for their choice, plus the option 'Others' to capture all other reasons. It's easy to fill in and the response rate is high. I've obtained more than 1,000 returns and the results are shown in a pie chart."



Peter remarked, "The conclusion is very obvious: Our web design is unattractive to our customers. If we can improve on this, we may attract more customers to use our online ticketing system."

Paul, the general manager, commented, "I'm afraid I can't agree with your interpretation of the data. Moreover, numbers cannot tell the whole story. We need more data before we can tell how we can increase online ticket sales. Besides, I think there are both problems and advantages of selling tickets directly to customers through the online ticketing system." He continued, "Well, I'm considering something more strategic. There is an increasing number of passengers flying to and from the Mainland for business, touring and transit purposes. I suggest we take over Phoenix Airways which is also based in Hong Kong but specializes in flights between Hong Kong and the Mainland."

Mary, the operations manager, responded, "As another strategic move, how about expanding into the flight catering business? We can set up a catering unit to provide food and beverages for our own flights as well as those of other airlines."

2009 HKALE

Section B

6. L & M Ltd is a small local real estate agency with Leslie and Mike as the only shareholders. The company specializes in the leasing of residential property on Hong Kong Island. In a meeting to explore ways to expand the business, Leslie suggested: "To provide a full range of service to our customers, we may consider providing a furniture-leasing service."

Mike was skeptical about the idea: "I prefer building on our current expertise, that is, residential property leasing service. We should also serve corporate clients and help them find accommodation for their staff. A number of companies provide housing for their expatriate employees. Two members in our sales team have good connections with these companies."

Leslie queried, "Corporate clients have different requirements and expectations compared with individual households in the leasing of residential property. I'm afraid it may not be as easy as we expect. I have a cousin running a furniture store in Sheung Wan. He told me that nowadays more Hong Kong people are interested in leasing furniture. Furniture leasing appears to have great market potential. To save costs, we can subcontract the furniture leasing to my cousin."

Leslie responded, "If you don't like subcontracting, we may set up our own furniture store. Then we need to find sufficient funding for the expansion."

7. Britana Coach Company has been operating a coach-for-hire service for schools and firms. Nearly 60% of the primary schools in Tai Po and Sheung Shui have chosen Britana because it offers safe and point-to-point service

at reasonable prices. Britana's corporate clients are mainly located at the container terminals in Kwai Chung with their employees residing in Tai Po and Sheung Shui. Over the years, Britana has made a lot of effort to build an image of a caring company and it believes every company should be socially responsible.

Recently, some parents expressed their concern to the drivers about the late arrival of school buses. On a few occasions, the buses were late by more than 15 minutes, resulting in the children standing in the street for a long time. The drivers explained to the parents that some children at the earlier stops arrived late leading to subsequent delays at later stops. They said that if they had left the earlier stops on time, children who were late at those stops would miss the bus and their parents would also be angry. Despite the explanation, the parents were still unhappy and felt that the drivers were only making excuses. Britana is considering how to reaffirm its policy of punctual departure from each stop without causing dissatisfaction among the parents.

At the same time, Britana is also considering whether it should offer an additional pick-up service. Many school principals explain that they cannot organize any extra-curricular activities after school without a school bus service because it is dangerous for the children to take public transport on their own. While most parents are willing to pay extra money for the additional pick-up service, the profit margin is expected to be low. Moreover, some drivers will have to give up their 30-minute break as they will have to drive to Kwai Chung immediately afterwards. Britana will also have to buy an extra coach for the additional service. The initial cash outlay for the new service will be \$1,500,000. The net cash flows for Years 1 to 4 (including the salvage value of the coach) are estimated as follows:

<u>Year</u>	<u>Net Cash Flow</u>
	\$
1	(100,000)
2	480,000
3	750,000
4	920,000

2010 HKALE

Section B

6. Healthy Wealth is a local pharmaceutical company specializing in manufacturing Chinese herbs capsules and it takes pride in producing quality products. Among all its successful products, "Protect-You" is the best selling cold medication in the market.

With the outbreak of Swine Flu, Mr Chong, the director of the company, recognized an opportunity to extend the market share of Protect-You by modifying its formula to include ingredients to prevent Swine Flu.

In anticipation of the market launch of the modified Protect-You, Mr Chong requests Alex, the manager of the sales and marketing department, to push the sales team to work harder. He orders that any salesperson who fails to meet the pre-determined sales target for two consecutive months will be dismissed. Besides, every salesperson has to come to the office every morning for attendance-taking and preparation of a daily work schedule. They are also required to come back in the evening for a detailed daily sales report. Mr Chong believes that with close supervision, the efficiency of the sales team and the overall sales performance would be enhanced.

At the same time, Mr Chong asks Alex to investigate the market potential of the modified Protect-You. Based on the preliminary findings, the most promising market segment is the group of people who consume over-the-counter medicine (i.e. medicine that can be bought and sold at drug stores without a prescription). However, information reveals that a number of consumers are skeptical of the effectiveness of Chinese medicine in preventing and curing a new disease, such as Swine Flu. Therefore, Alex suggests that more detailed market research has to be conducted to assess the market potential of the modified Protect-You. Finally, Mr Chong tells Alex to formulate promotion strategies for the modified Protect-You.

7. Peter, Michael and Paul want to start a company named PMP specializing in delivering meals. In a meeting, Peter

explained, "Nowadays, some people find it rather troublesome dining out for lunch or dinner as they need to wait for a long time particularly when visiting popular restaurants during peak hours. Therefore, setting up a company specializing in delivering meals from different restaurants to households and office would be a good idea. In fact, there is already such type of companies in the market. Also, if we start PMP, there is no need to invest a lot of money in the set-up stage. All we need to do is to solicit a group of restaurants and put their menus together in a combined catalogue and mail it to potential customers. When people dial in for dishes, we redirect the order to the respective restaurant, pick up the meals later and deliver them to the customers." Paul suggested, "Punctual delivery is critical to this business. If we can have our own delivery team, we can exercise greater control on the delivery time. On the other hand, a lot of advantages could be realized if we subcontract the delivery work to outside parties."

Peter added, "Could we acquire an existing firm to obtain its pre-existing businesses? I have a friend who is operating a meal delivery firm named EasyMeal in this business. He wants to retire and sell his company and has given me some financial information about EasyMeal."

Financial information about EasyMeal for the year ended 31 March 2010 is as follows:

	\$		\$
Sales	10,200,000	Non-current assets	1,100,000
Cost of sales	8,700,000	Current assets	1,200,000
Other expenses	1,000,000	Non-current liabilities	900,000
Profit before tax	500,000	Current liabilities	900,000
Profit after tax	420,000	Shareholders' equity	500,000

8. Starting from a small shop in Mongkok, Fancy Fashions has grown into a multinational corporation with a number of women's apparel stores in Hong Kong, Shanghai, Seoul and Tokyo.

For example, in one meeting, Nancy requested the purchasing department to forward some samples to the marketing department and work together to prepare the new winter collection promotion campaign. Some samples had been forwarded, but the two departments did not follow up on the matters and only waited for Nancy's next instruction in another meeting. In the end, the whole winter collection promotion campaign fell behind schedule and sales dropped remarkably.

2011 HKALE

6. Man Shing Book Company is a bookstore established nearly 20 years ago. It has two main streams of business. Firstly, it is a book retailer selling a variety of books, including textbooks for primary and secondary school students. Secondly, Man Shing is also a publisher producing mainly cook books and touring guides. The income from publishing is unstable while book sales are the major source of revenue to Man Shing.

Paul, the owner of Man Shing, felt very worried with the recent growing trend of eBooks. He held a meeting with Mary, the marketing manager, and Tom, the operations manager, to analyse the possible impacts of eBooks on Man Shing.

Paul started, "eBooks present the content of books in an electronic format for reading on eBook readers or other electronic devices. eBooks have already become very popular in the United States. Although currently there are not that many local eBook publishers or people using eBook readers, I think eBooks will become more popular in Hong Kong. Also, the government and publishers are considering digitizing school textbooks and this may seriously affect our revenue."

Mary said, "From the marketing point of view, customers may prefer eBooks to printed books. However, the development of eBooks is a complicated process involving authors, publishers, producers of eBook readers, and providers of digitization and internet services. eBook readers are of different sizes and specifications, and the eBook market is not yet popular in Hong Kong. I think the impact of eBooks on our business would be minimal in

the near future. Also, the adoption of eBooks as school textbooks is still very difficult. Although Hong Kong people can generally afford eBook readers, the introduction of eBooks as textbooks is subject to a lot of other macro environmental influences."

Tom responded, "If we want to sell our books online, we need to team up with eBook providers. However, we may lose control over setting prices for our books. In fact, the target markets of printed books and eBooks are different. As a book retailer, we are not just selling books. We have a large collection of books and spacious reading areas for those who enjoy browsing around in bookstores. We can extend our business to better serve this particular market segment."

7. Susan owns the Bauhinia Company which runs a beauty and fitness center in Causeway Bay. The center is famous for the skills and professional advice of its beauty consultants.

Susan was invited to take over a fitness center located in a shopping arcade in Sheung Shui. The lease of the premises has just been renewed for four years and Susan can take over the lease. For this project of taking over the fitness center, she has two options regarding the expenditure on renovating the premises and installing additional equipment. Option A involves spending a smaller outlay of \$11 million at the beginning but would require additional outlay to install more equipment in Year 2. Option B involves a larger outlay of \$16 million at the beginning but no more expenditure on additional equipment in subsequent years. The following table gives the project's net cash flows and related information under the two options:

<u>Year</u>	<u>Option A</u>	<u>Option B</u>
	\$	\$
0	-11,000,000	-16,000,000
1	4,200,000	5,000,000
2	-450,000	5,000,000
3	6,700,000	6,700,000
4	6,700,000	6,700,000
	<u>6,150,000</u>	<u>7,400,000</u>
Net present value (NPV)	?	\$1,477,153
Internal rate of return (IRR)	17.08%	16.06%

Susan expects that the scrap value of equipment and facilities at the end of the four years will be negligible.

Meanwhile, Susan also has to manage the risks inherent in her business. A customer lodged a claim against Bauhinia Company for her injury during a facial treatment. After negotiation, the case was settled by paying compensation to the customer. In view of the high profitability of such services, Susan decided to continue offering these treatments but not to buy insurance as it would require high premiums.

8. Kai Kee is a Hong Kong style café established by Alfred Wong ten years ago. By providing delicious food at low prices, Kai Kee has become quite a successful venture and has developed into a chain consisting of 30 cafes in Hong Kong, Macau and the Mainland. Alfred allows individual cafes to be highly autonomous in operation as if they are independent firms. The only requirement is meeting the profit target. The manager and staff can enjoy generous profit sharing once the target is achieved. Meanwhile, Alfred wants to further expand his chain and plans to diversify his business.

In a meeting, Jane, the human resource manager, reported, "Even though we pay wages above the market average, the turnover rate of our frontline workers is still quite high. More importantly, we have not been able to attract young people to join our cafes and work for us.

Peter, the operations manager, said, "Working in cafes inevitably involves relatively long hours and uncomfortable environment that youngsters dislike. Maybe we can hire some workers with mild intellectual disabilities as they are likely to be more loyal."

Jane worried, "Hiring people with mild intellectual disabilities can help fulfill social responsibility but they may need more support. In fact, there are quite a number of young people working for fast food chains. There must be some means to attract young people to work in our cafes."