

### The HKICPA Accounting and

### Business Management

### Case Competition

**2019-20**

### (Level 2)

Lifestyle International Holdings Limited (Lifestyle International), together with its subsidiaries (hereinafter referred to as the Group) is a Hong Kong-based premier retail operator that specializes in the operation of mid to upper-end department stores in Hong Kong. The Group’s two SOGO stores in Causeway Bay (SOGO CWB) and Tsim Sha Tsui (SOGO TST) have established themselves as the favourite shopping destinations among both tourists and local consumers in Hong Kong. They offer one-stop shopping experiences by providing a wide variety of goods ranging from daily necessities to luxury products as well as personal care services, such as beauty salons, in a comfortable shopping environment.

SOGO CWB, a Japanese-style department store, commenced its operations in 1985 and has become an important retail landmark of Hong Kong. In 2001, Lifestyle International acquired SOGO CWB and was granted the right to use of the Sogo trademark in Hong Kong. On 15 April 2004, Lifestyle International was listed on the Main Board of the Stock Exchange of Hong Kong, with the stock code 1212. In 2005, Lifestyle International launched its second store, SOGO TST. In December 2017, Lifestyle International commenced the construction works of its twin blocks of commercial buildings in Kai Tak, East Kowloon, that plans to host a new SOGO department store along with other retailing, entertainment, dining and lifestyle facilities upon its scheduled completion in 2022.

In 2018, SOGO CWB saw its record-high sales and contributed 83% to the Group’s gross sales, with an average ticket size amounting to HK$912. Thanks to a rebound in tourists arrival, the SOGO TST experienced robust sales growth, with cosmetics and skincare products being the main growth driver. The iconic biannual Thankful Week events, held in May and November, regularly draw overwhelming responses from shoppers and help the Group sustain strong sales momentum. In aggregate, sales from the two events accounted for approximately 27% of 2018 gross sales proceeds of SOGO CWB. To help keeping customers engaged and reinforcing the Group’s brand equity, the SOGO Rewards programme was first launched in July 2016 and continued to gain traction that the number of members had exceeded 570,000 by the end of 2018.

During the financial year ended 31 December 2018, the Group turnover enjoyed a 16.1% growth from its two department stores to approximately HK$4.36 billion (2017: HK$3.76 billion). Gross profit amounted to HK$3.22 billion, up 13.6% from HK$2.83 billion in 2017. However, due to items unrelated to its core department store operations, Lifestyle International reported a profit from continuing operation of HK$1.69 billion in 2018, down 41.2% from HK$2.88 billion in 2017.

**REQUIRED**

Over the years, the “SOGO” brand operated by the Group has become a household name in Hong Kong and established a favourable brand image which appeals to people from all walks of life. However, the retail market in Hong Kong has been undermined by economic uncertainties brought by the escalating US-China trade tensions, weakening Chinese yuan, and a slow down of Chinese economy.

Lifestyle International Holdings Limited has invited you, as a management consultant, to prepare a business proposal to:

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| Part I | review Lifestyle International Group’s overall financial performance for the past TWO years, i.e. for the years ended 31 December 2017 and 2018; and |
|  |  |
| Part II  | formulate a business plan costing up to HK$10 million for the coming TWO years (i.e. for the years ending 31 December 2020 and 2021) to further enhance the operational performance of Lifestyle International Group’s **department stores in Hong Kong.** |

Your business proposal should include the following sections, the marks available and the suggested page count for each.

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| --- | --- |
| A) | Executive summary  |
|  | A concise summary of (i)Lifestyle International Group’s current state of business and the strategic direction of its department store operations, and (ii) the key findings, the main conclusion, and the key recommendations of your business plan. |
|  | (5 marks – approximately 1 page) |
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| B)  | Introduction  |
|  | The background, the objectives, and the scope of your business proposal. |
|  | (3 marks – approximately 1 page) |
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| C)  | Part I – An overall review ofLifestyle International Group’s financial performanceA comprehensive analysis of the Group’s financial performance for the years ended 31 December 2017 and 2018 with appropriate interpretation:*Instructions:* *Apply average figures (e.g. Average inventory for 2018 = 1/2 x (inventory at 1.1.2018 and 31.12.2018; Average inventory for 2017 = 1/2 x (inventory at 1.1.2017 and 31.12.2017).* ***Note: Refer to the 2018 annual report only****. The financial statements for 2017 have been restated and financial information on 1.1.2017 and 31.12.2017 are included in the 2018 annual report.**Apply the information of “continuing operations” on the Consolidated Statement of Profit or Loss to work out your answers for this part.*1. Profitability in terms of:
2. gross profit margin,
3. net profit margin,
4. return on capital employed,
5. return on average assets; and
6. Management efficiency in terms of:
7. average inventory turnover period,
8. average trade payables repayment period,
9. total assets turnover; and
10. Short-term liquidity in terms of:
11. current ratio,
12. quick ratio,
13. cash ratio; and
14. Long-term solvency ratios in terms of:
15. gearing ratio,
16. debt to equity ratio,
17. time interest earned; and
18. Investment ratios in terms of:
19. earnings per share (EPS),
20. price-earnings (P/E) ratio. (Lifestyle International Group’s share price as at 31 December 2018: $11.86; as at 31 December 2017: $10.34).
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|  | (30 marks – approximately 4 pages) |
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| D)  | Part II - Formulate a business plan for the operations of**Lifestyle International Group’s department stores in Hong Kong.** |
|  | 1. Trend analysis of the **Lifestyle International Group’s** financial performance for the years ended 31 December 2017 and 2018
* Review revenue, net profit before tax and net profit margin.
* Review inventory turnover ratio and total asset turnover ratio.
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|  | (10 marks – approximately 1.5 page) |
|  |  |
|  | 1. SWOT analysis of **Lifestyle International Group’s the operations of department stores in Hong Kong**
* Non-financial analyses in terms of favourable/ unfavourable factors external and internal to the organization.
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|  | (20 marks – approximately 3.5 pages) |
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|  | 1. Business plan for the years ending 31 December 2020 and 2021
* Develop a business plan with a budget of up to HK$10 million for launching a promotional project to improve the operational performance of **Lifestyle International’s** **department stores** **in Hong Kong**. This should be supported by a marketing expenses budget and implementation details.
* To evaluate the effectiveness of your recommendations, you are required to analyse the projected impacts on average daily orders, average transaction value and sales for the years ending 31 December 2020 and 2021.
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|  | (25 marks – approximately 5 pages) |
|  |  |
| E)  | Conclusion (5 marks – approximately 1 page) |
|  |  |
| F) | Appendices including References, a glossary of terms and (2 marks)details of market research (if any)  |
|  | (Total: 100 marks) |

**Notes**

1. In preparing your analysis, you should refer to Lifestyle International Group’s 2018 annual report and information which are available on Lifestyle International Group’s website at <https://www.lifestylehk.com.hk/html/index.php> or any other relevant sources.
2. You are required to carry out a detailed financial analysis for **the past TWO years, for the years ended 31 December 2017 and 2018**. Make sure all calculations are supported by appropriate formulae as attached on p.5 **(Annex 1)**.
3. You are reminded to:
4. refer to the 2018 annual report for financial information on 1.1.2017, 31.12.2017 and 31.12.2018. and

ii apply the information of “continuing operations” on the Consolidated Statement of Profit or Loss.

1. In preparing the business proposal, you should:
	* + - ensure that all your suggestions and recommendations are in line with Lifestyle International Group’s vision and strategic directions;
			- quote references from the annual reports with the respective page numbers;
			- state all relevant information such as charts, graphs, published information, references, research findings and copies of questionnaires (if any), etc., under the “Appendices” section;
			- state clearly any underlying assumptions which can justify your analyses and recommendations; and support all your calculations with workings and explanations

(5) To obtain more precise projections on business plan of 2019 and 2020, you should
 refer to Lifestyle International Group's website for the latest financial reports which

 will be available in early January 2020.

**Useful reference**

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| **HKICPA Accounting and Business Management Case Competition Website**  |
| <https://www.hkicpa.org.hk/amcc> |
| **Competition Facebook Page** |
| <https://www.facebook.com/hkicpacompetition/> |
| **Lifestyle International Holdings Limited website** |
| <https://www.lifestylehk.com.hk/html/index.php> |

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|  | **Free Business seminar** **(Levels 1 and 2 participants)** | **Free Business seminar (Level 2 participants)** |
| **Date:** | 9 November 2019 (Saturday) | 4 January 2020 (Saturday) |
| **Time:** | 8:45 a.m. – 1:15 p.m. | 2:00 p.m. – 5:15 p.m. |
| **Venue:** | 27/F, Wu Chung House, 213 Queen's Road East, Wanchai |
| **Topics:** | For both Levels 1 & 2:Basic financial ratio analysis and implication; and Recap of major business and management concepts.For Level 2 only: Deriving important information from financial statement; Methods of analyzing trends; Basic budget preparation. | Operation of Lifestyle International; Proposal writing skills, business management and marketing strategies. |

**Annex 1**

|  |  |  |
| --- | --- | --- |
|  | Formula | 2018 Annual Report Ref. page |
| **Profitability Ratios** |
| Gross Profit Margin | Gross ProfitSales | x 100% | p. 89  |
| Net Profit Margin | Net Profit Before TaxSales | x 100% | p. 89 |
| Return on Capital Employed | Net Profit Before Interest and TaxAverage Capital Employed | x 100% | p. 89, p. 91, p. 92  |
| (Hint: Capital Employed = Non-current Liabilities +Capital and Reserves + Non-controlling Interests) |
| Return on Average Assets | Net Profit After TaxAverage Total Assets | x 100% | p. 89, p. 91  |
| **Management Efficiency Ratios** |
| Average Inventory Turnover Period | Average InventoryCost of Goods Sold | x 365 days | p. 89, p. 91 |
| Average Trade Payables Repayment Period | Average Trade PayablesCredit Purchases | x 365 days | p. 89, p. 91 |
| (Hint: Cost of Goods Sold = Opening Inventories + Credit Purchases – Closing Inventories)  |
| Total Assets Turnover |  Sales Average Total Assets | p. 89, p. 91 |
| **Liquidity Ratios** |
| Current Ratio | Current AssetsCurrent Liabilities | p. 91 |
| Quick Ratio | Current Assets – Inventories – PrepaymentsCurrent Liabilities | p. 91 |
| Cash Ratio | Cash and Cash EquivalentsCurrent Liabilities | p. 91 |
| **Solvency Ratios** |
| Gearing Ratio  | Non-current Liabilities +Preference Share CapitalNon-current liabilities +Shareholders’ equity | x 100% | p. 91, p. 92  |
| Debt to Equity Ratio |  Total Liabilities Shareholders' Equity | x 100% | p. 91, p. 92  |
| Time Interest Earned | Profit Before Interest and TaxInterest Expense | p. 89  |
| **Return on Investment Ratios** |
| Earnings Per Share (EPS)  | Profit Attributable to Owners of the CompanyNumber of Ordinary Shares Issued | p. 89, p. 146  |
| (Hint: in 2017, use the “Profit attributable to owners of the Company – from continuing operation” |
| Price-Earnings Ratio (P/E Ratio) | Current Price per Ordinary ShareEarnings Per Share (EPS) | p. 89, p. 146  |

**REPORT FORMAT AND RULES**

1. Each team should submit a business proposal in English or Chinese. The language used depends on the choice indicated on the registration form.
2. Cover page\* (This page is not counted in the page limit.)
3. Table of contents
4. Contents
5. Appendices/ graphs/ references
6. Survey questionnaire and its results# (if any) (This part is not counted in the page limit.)

**Page limit**

English proposal – 10 to 17 pages of A4 paper
Chinese proposal – 8 to 14 pages of A4 paper

 *\* Each proposal should use a standardized HKICPA cover sheet with the name(s) of
 the participating students, the school at which they are studying, as well as the
 contact number and e-mail address of the team leader. The cover sheet is appended*

 *at the end of the case question for download.*

*# Please include survey questionnaires and results in the last part of the report, if any, so that the number of pages can be counted easily.*

1. Font type and size: English proposal – Arial (12 points) / Chinese proposal – 新細明體(11 points). 1.5 line spacing. Margin: 1 inch for each side.
2. The content pages **SHOULD NOT** include the names of team members and the school at which they are studying.
3. Each participating team needs to submit the following items in **SOFT COPY** (PDF format):
	* Written business proposal; and
	* An HKICPA cover sheet.
4. Save the proposal, cover sheet and completed questionnaire in **TWO** separate files with respective file names being shown as:
* "Team leader full name\_Team leader mobile phone no.\_Proposal"

*(e.g. Chan Tai Man\_98765432\_Proposal)*

* "Team leader full name\_Team leader mobile phone no.\_Cover Sheet"

*(e.g. Chan Tai Man\_98765432\_Cover Sheet)*

1. Each participating team should send the TWO PDF files **in one email** to amcc@hkicpa.org.hk, with the subject as "Accounting and Business Management Case Competition 2019-20 (Level 2)". **Multiple submissions will be disqualified.**

1. The deadline for submission: **Before** **23:59, 17 February 2020** (the email receiving time by the HKICPA's mailbox shall prevail).
2. The HKICPA has the right to disqualify any participant or team if the participant or team is found to have violated the rules of the competition.

**The HKICPA Accounting and Business Management Case Competition 2019-20 (Level 2)**

**Cover Sheet**

(Please attach this cover sheet to your business proposal)

(Please complete in BLOCK LETTERS)

|  |  |
| --- | --- |
| **School name** |  |
|  |  |
| **Participant information:** |
| Team leader |
| Name\* |  |
| Form |  |
| Email |  |
| Contact number |  |
|  |  |
| Team member 2 | Name\* |  |
|  |  |  |
| Team member 3  | Name\* |  |
|  |  |  |
| Team member 4 *(if any)* | Name\* |  |
|  |  |  |
| Team member 5 *(if any)* | Name\* |  |

*\*The names should be identical to the name on you identity card, which will be* ***used for printing certificate****.*

**Document checklist (Please √ the boxes.)**

|  |  |
| --- | --- |
| 🗆 | Email this cover sheet  |
| 🗆 | A business proposal (PDF format) |
| ^ *Any missing documents or incomplete proposal may result in the disqualification of your participation.* |

***For official use:***

|  |  |
| --- | --- |
| Business proposal received on: |  |
| Total marks: |  |
| Team no.: |  |
| Handled by: |  |
| Remarks: |  |