

### The HKICPA Accounting and

### Business Management

### Case Competition

**2019-20**

### (Level 1)

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**

Assume that you are newly employed by **Lifestyle International** as a financial analyst. Your supervisor asks you to prepare a report to analyse the Group’s financial and business performance. Your report should include the following sections:

1. **Financial analysis**

A tabular analysis of **Lifestyle International** **Group’s** financial ratios with appropriate interpretation and all calculations must be supported by appropriate workings:

Instructions:

1. Use the information from **Lifestyle International** **Group’s 2018 annual report** to prepare your answers. The financial statements for 2017 have been restated and shown in the 2018 annual report.
2. Apply “Year-end” (i.e. 31 December) figures on the Consolidated Statement of Financial Position to work out your answers for this part.
3. Apply the information of “continuing operations” on the Consolidated Statement of Profit or Loss to work out your answers for this part.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Formula | | Ratios | | | | 2018 Annual Report  Ref. page | |
|  |  | | 2018 | | 2017 | |
| **Profitability ratios** | | | | | | | | |
| Mark up | \_ Gross Profit\_\_  Cost of Goods Sold | x 100% | \_\_\_ \_ % | | \_\_\_ \_ % | | p. 89 | |
| Gross Profit Margin | Gross Profit \_  Sales | x 100% | \_\_\_ \_ % | | \_\_\_ \_ % | | p. 89 | |
| Net Profit Margin | Net Profit Before Tax  Sales | x 100% | \_\_\_ \_ % | | \_\_\_ \_ % | | p. 89 | |
| Return on Capital Employed | \_Profit Before Interest and Tax\_  Capital Employed | x 100% | \_\_\_ \_ % | | \_\_\_ \_ % | | p. 89, p. 91, p. 92 | |
| (Hint: Capital Employed *for Limited Companies* = Non-current Liabilities + Shareholders’ Fund) | | | | | | | |
| Comments |  | | | | | | | |
| **Management Efficiency ratios** | | | | | | | | |
| Inventory Turnover | \_Cost of Goods Sold\_  Inventory |  | \_ times | \_ \_ \_times | | p. 89, p. 91 | | |
| Inventory Turnover Period | \_\_\_\_\_Inventory \_\_ \_\_  Cost of Goods Sold | x 365 days | \_ days | \_\_\_\_days | |
| Trade Payables Turnover | \_Credit Purchases\_  Trade Payables |  | \_ \_\_\_times | \_\_\_ times | | p. 89, p. 91 | | |
| Trade Payables Repayment Period | \_Trade Payables \_  Credit Purchases | x 365 days | \_\_\_\_ days | \_\_\_ days | |
| (Hint: Cost of Goods Sold = Opening Inventories + Credit Purchases – Closing Inventories) | | | | | | | |
| Total Assets Turnover | \_\_\_ Sales\_\_\_\_  Total Assets |  | \_\_ times | \_\_\_ times | | p. 89, p. 91 | | |
| Comments |  | | | | | | | |
| **Liquidity ratios** | | | | | | | | |
| Current Ratio | \_ Current Assets\_\_  Current Liabilities | | :1 | | :1 | | | p. 91 |
| Quick Ratio | Current Assets – Inventories – Prepayments  Current Liabilities | | :1 | | :1 | | | p. 91 |
| Comments |  | | | | | | | |
| **Solvency ratios** | | | | | | | | |
| Gearing Ratio | Non-current Liabilities +  Preference Share Capital \_  Non-current Liabilities +  Shareholders’ Fund | x 100% | % | | % | | | p. 91, p. 92 |
| Comments |  | | | | | | | |
| **Return on investment ratios** | | | | | | | | |
| Earnings Per Share (EPS) | Profit attributable to owners of the Company  Number of ordinary shares issued | | $ /share | | $ /share | | | p. 89, p. 146 |
| (Hint: in 2017, use the “Profit attributable to owners of the Company ––– from continuing operation” | | | | | | | |
| Comments |  | | | | | | | |

(70 marks)

1. **Business analysis**

In respect of each of the following areas, conduct a business analysis to identify at least **four** examples of **Lifestyle International** **Group’s** achievements and make **one** suggestion for improvement:

|  |  |
| --- | --- |
| Environmental Protection | Achievements: |
| Improvement: |
| Corporate Social Responsibility | Achievements: |
| Improvement: |
| Corporate Governance | Achievements: |
| Improvement: |

(30 marks)

(Total: 100 marks)

**Notes**

1. In preparing your analysis, you should refer to **Lifestyle International Group’s** 2018 annual reports and information which are available at the Company’s website at <https://www.lifestylehk.com.hk/html/index.php> or any other relevant sources.
2. You are required to carry out a tabular financial analysis for **the past TWO years, i.e. for the years ended 31 December 2017 and 2018**, and make sure all calculations follow the appropriate formulae. All calculations must be supported by appropriate workings.
3. Make clear references to all materials used in the analysis.

**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> |

**Free Business seminar (Levels 1 and 2 participants)**

Date: 9 November 2019 (Saturday)  
Time: 8:45 a.m. – 12:15 p.m.  
Venue: 27/F, Wu Chung House, 213 Queen's Road East, Wanchai  
Topics: Basic financial ratio analysis and implication; and Recap of major business   
 and management concepts

**REPORT FORMAT AND RULES**

1. Each participating student or team should submit a report in English or Chinese. The language used depends on the choice indicated on the registration form. The report should contain the following:
2. Cover sheet\* *(This page is not counted in the page limit.)*
3. Table of contents
4. Contents – A)Financial analysis  
    B)Business analysis

4. Appendices/ graphs/ index/ references (if any)

**Page limit**

English report – 4-6 pages of A4 paper

Chinese report – 3-4 pages of A4 paper

\* *Each report 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.*

1. Font type and size: English report – Arial (12 points). / Chinese report –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 student or team needs to submit the following items in **SOFT COPY** (PDF format):
   * An analysis report; and
   * An HKICPA cover sheet.
4. Save the analysis report, 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.\_Analysis Report"

*(e.g. Chan Tai Man\_98765432\_* *Analysis Report)*

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

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

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

1. The deadline for submission: **Before** **23:59, 14 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 1)**

**Cover Sheet**

(Please attach this cover sheet to your analysis)

(Please complete in BLOCK LETTERS)

|  |  |  |  |
| --- | --- | --- | --- |
| **School name** |  | | |
| **Format** | Team / Individual # | | (#please delete as appropriate) |
|  |  | | |
| **Participant information:** | | | |
| Team leader / Individual participant | | | |
| Name\* |  | | |
| Form |  | | |
| Email |  | | |
| Contact number |  | | |
|  |  | | |
| Team member 2 *(if any)* | Name\* |  | |
|  |  |  | |
| Team member 3 *(if any)* | Name\* |  | |
|  |  |  | |
| Team member 4 *(if any)* | Name\* |  | |
|  |  |  | |
| Team member 5 *(if any)* | Name\* |  | |

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

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

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

***For official use:***

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