



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

The HKICPA Accounting and Business Management Case Competition

2020-21

(Level 2)

Tsit Wing International Holdings Limited (Tsit Wing), and its subsidiaries (hereinafter referred to as the “Group”) is a leading integrated Business-to-Business (B2B) food and beverage solution provider in Hong Kong. Since the Group’s establishment in Hong Kong in the early 1930s, it has gradually built an established sales and distribution network in the Hong Kong Foodservice Industry. Today, the group command a substantial market share and is one of the leading coffee, tea and beverage solution providers to the Hong Kong’s Foodservice industry. On 11 May 2018, Tsit Wing was listed on the Main Board of the Hong Kong Stock Exchange, under the stock code: 2119.

Backed by a global sourcing network and a sophisticated quality control system with certified recognitions including ISO9001, ISO22000 and HACCP, the group provides a one-stop service to its customers from market analysis, recipe development, sourcing, production, marketing & promotional support, to after-sales service that includes regular customer training and equipment maintenance. The beverage solution segment of the business brings in over 95% of the Group’s revenue. With a commitment to business diversification and riding on an evolving market, the Group is committed to expanding its portfolio and business diversification. More than 10 years ago, the Group started to establish a vision to becoming a world class Food & Beverage Service Solution Provider thus expanding its product portfolio to include food solution with a focus on the supply of frozen processed food and raw, cut & sliced meat products to cater to customer needs and riding on the upcoming market trends.

The Group believes in the spirit of 2 “Es” – Education & Experience in promoting their business hence has established an Education and Experience Center called the EXEC, a fully-equipped facility to showcase and to share food & beverage solution knowhow, applications and best practice with its customers and stakeholders. In addition, TWG Coffee Connoisseurs Academy (TWGCCA) was established to provide seminars and training to commercial and academic institutions in promoting the coffee culture in Hong Kong. Under the spirit of the 2 Es, TWGCCA started to co-organize special thematic tours with well-renowned travel agencies. The tours were opened to the public and the first one was a coffee thematic tour to Italy in 2018.

In December 2019, the Group made a significant step into the Business-to-Consumers (B2C) market and Online-to-Offline (O2O) commerce by establishing an online flagship store on Tmall.com, “Tsit Wing Flagship Store”, that sells a varieties of B2C coffee & tea products. Such an online sales platform enables the Group to reach out to end-consumers and widen its customer base from 2b to 2c and 2o.

For the year ended 31 December 2019, the Group’s recorded revenue from continuing operations was HK\$785.0 million, representing a decrease of 5.5%, compared to the year ended 31 December 2018 (2018: HK\$831.1 million). Regarding geographic segments, revenue generated in Hong Kong is maintained at around HK\$499.0 million from 2018 to 2019 regardless of the battered business environment for the food and beverage industry of Hong Kong. However, revenue generated in Mainland China decreased from HK\$314.0 million in 2018 to HK\$267.0 million in 2019, primarily due to the decrease in sales of instant beverage mix products. Besides, the Group also sells a small portion of products to Macau and other overseas countries through distributors and generates HK\$19.0 million in 2019, a HK\$0.9 million increase from 2018. The Group’s profit from continuing operations increased by 22.6%, from HK\$73.2 million in 2018 to HK\$89.8 million in 2019.

REQUIRED

Over the years, **Tsit Wing Group** has become the leading provider of coffee and tea solutions to commercial customers in Hong Kong by providing the entire value chain from coffee and tea procurement, processing, and distribution. However, the outbreak of COVID-19 is expected to reverberate across the economy of Hong Kong, thereby dampening the business climate and expansion opportunities of the food and beverage industry.

Tsit Wing has invited you, as a management consultant, to prepare a business proposal to:

- Part I Review **Tsit Wing Group's** overall financial performance for the past TWO years, for the years ended 31 December 2018 and 2019; and
- Part II Formulate a business plan of HK\$10 million for the coming TWO years (i.e. the years ending 31 December 2021 and 2022) to further enhance **Tsit Wing Group's beverage and food business in Hong Kong.**

Your business proposal should include the following:

- A) Executive summary
A concise summary of (i) **Tsit Wing Group's** current state of business, (ii) vision, and (iii) the key findings and recommendations of your business plan.
(5 marks – approximately 1 page)
- B) Introduction
The background, the objectives, and the scope of your business proposal.
(3 marks – approximately 1 page)
- C) Part I – A comprehensive analysis of **Tsit Wing Group's** financial performance for the years ended 31 December 2018 and 2019 with appropriate interpretation:

Instructions:

Apply the information of “continuing operations”, if available, on the Consolidated Statement of Profit or Loss.

Refer to the **2019 annual report** for financial information on 31.12.2019 and 1.1.2019, since the financial statements for 2018 have been restated.
Refer to the **2018 annual report** for financial information on 1.1.2018.

Apply “**Average**” figures if required:

Average inventory for 2019 = $1/2 \times (\text{inventory at 1.1.2019 and 31.12.2019})$;
Average inventory for 2018 = $1/2 \times (\text{inventory at 1.1.2018 and 31.12.2018})$.

For all ratios, show calculation workings and keep two decimal places.

To interpret the financial performance, show your comments based on the ratios.

- (a) Profitability in terms of
 - (i) gross profit margin,
 - (ii) net profit margin,
 - (iii) return on average capital employed,
 - (iv) return on average assets; and
- (b) Management efficiency in terms of
 - (i) average inventory turnover period,
 - (ii) average trade payables repayment period,
 - (iii) average total assets turnover; and
- (c) Short-term liquidity in terms of
 - (i) current ratio,
 - (ii) quick ratio,
 - (iii) cash ratio; and
- (d) Long-term solvency ratios in terms of
 - (i) gearing ratio,
 - (ii) debt to equity ratio,
 - (iii) time interest earned; and
- (e) Investment ratios in terms of
 - (i) earnings per share (EPS),
 - (ii) price-earnings (P/E) ratio. (Tsit Wing's share price as at 31 December 2019: \$1.09; as at 31 December 2018: \$1.06)

(35 marks – approximately 4 pages)

D) Part II - Formulate a business plan for **Tsit Wing Group's beverage and food operations in Hong Kong.**

- (a) Comment on the **Group's operations in Hong Kong** with reference to the **2019 annual report Footnote 5**, the disaggregated revenue from **Hong Kong operations** for the years ended 31 December 2018 and 2019 is shown on Page 145 Page 144, respectively.

(5 marks – approximately 1 page)

- (b) SWOT analysis of **Tsit Wing Group's beverage and food operations in Hong Kong**. Non-financial analyses in terms of favorable/ unfavorable factors external and internal to the organization

(20 marks – approximately 3.5 pages)

- (c) Business plan for the year ending 31 December 2021 and 2022
 - Develop a business plan of \$10 million for launching a promotional project to improve **Tsit Wing Group's beverage and food operations in Hong Kong**, which should be supported by a marketing expenses budget and implementation details.
 - Analyze the projected impact on revenue and profit for the years ending 31 December 2021 and 2022 to evaluate the effectiveness of your recommendations.

(25 marks – approximately 5 pages)

- E) Conclusion (5 marks – approximately 1 page)
- F) Appendices including References, a glossary of terms and Details of market research (if any) (2 marks)
- (Total: 100 marks)

Notes

- (1) In preparing your analysis, you should refer to Tsit Wing Group's annual reports available at http://www.twcoffee.com/en/announcements?page_num=1
- 2019 annual report is announced on 31 March 2020, and
 - 2018 annual report is announced on 26 March 2019.
- (2) You are required to carry out a detailed financial analysis for **the past TWO years, for the years ended 31 December 2018 and 2019**. All calculations should be supported by appropriate formulae as attached on p.5 (**Annex 1**) and keep two decimal places in your answers.
- (3) In preparing the financial performance analysis, you are reminded to
- refer to the **2019 annual report** for financial information on 31.12.2019 and 1.1.2019;
 - refer to the **2018 annual report** for financial information on 1.1.2018; and
 - apply the information of "continuing operations", if available, on the Consolidated Statement of Profit or Loss.
- (4) In preparing the business proposal, you should:
- ensure that all your suggestions and recommendations are in line with **Tsit Wing Group's** vision and strategic directions;
 - quote references from the annual reports with their 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.

Useful reference

HKICPA Accounting and Business Management Case Competition Website

<https://www.hkicpa.org.hk/amcc>

Competition Facebook Page

<https://www.facebook.com/hkicpacompetition/>

Tsit Wing International Holdings Limited website

<http://www.twcoffee.com/en/>

Annex 1

	Formula	Annual Report Ref. page	
		2019	2018
Profitability Ratios			
Gross Profit Margin	$\frac{\text{Gross Profit}}{\text{Revenue}} \times 100\%$	p. 82	p. 79
Net Profit Margin	$\frac{\text{Profit Before Tax}}{\text{Revenue}} \times 100\%$	p. 82	p. 79
Return on Capital Employed	$\frac{\text{Profit Before Interest and Tax}}{\text{Average Capital Employed}} \times 100\%$ Hints: Capital Employed = Non-current Liabilities + Total Equity	p. 82, p. 86	p. 79, p. 82
Return on Average Assets	$\frac{\text{Net Profit After Tax}}{\text{Average Total Assets}} \times 100\%$	p. 82, p. 85	p. 79, p. 81
Management Efficiency Ratios			
Average Inventory Turnover Period	$\frac{\text{Average Inventory}}{\text{Cost of Sales}} \times 365 \text{ days}$	p. 82, p. 85	p. 79, p. 81
Average Trade Payables Repayment Period	$\frac{\text{Average Trade Payables}}{\text{Credit Purchases}} \times 365 \text{ days}$ Hints: Credit Purchase = Closing Inventories + Cost of Sales - Opening Inventories	p. 82, p. 85	p. 79, p. 81
Average Total Assets Turnover	$\frac{\text{Revenue}}{\text{Average Total Assets}}$	p. 82, p. 85	p. 79, p. 81
Short-term Liquidity Ratios			
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	p. 85	p. 81
Quick Ratio	$\frac{\text{Current Assets} - \text{Inventories} - \text{Prepayments}}{\text{Current Liabilities}}$	p. 85	p. 81
Cash Ratio	$\frac{\text{Cash and Cash Equivalents}}{\text{Current Liabilities}}$	p. 85	p. 81
Long-term Solvency Ratios			
Gearing Ratio	$\frac{\text{Interest-bearing Bank Borrowings}}{\text{Share Capital} + \text{Reserves}} \times 100\%$	p. 85, p. 86	p. 81, p. 82
Debt to Equity Ratio	$\frac{\text{Total Liabilities}}{\text{Total Equity}} \times 100\%$	p. 85, p. 86	p. 81, p. 82
Time Interest Earned	$\frac{\text{Profit Before Interest and Tax}}{\text{Financing Costs}}$	p. 82	p. 79
Investment Ratios			
Earnings Per Share (EPS)	$\frac{\text{Profit Attributable to Owners of the Parent}}{\text{Weighted-average No. of Ordinary Shares}}$ Hints: in 2019, use the "Profit attributable to owners of the Parent – from continuing operation"	p. 83, p. 159	p. 79, p. 155
Price-Earnings Ratio (P/E Ratio)	$\frac{\text{Current Price Per Ordinary Share}}{\text{Earnings Per Share (EPS)}}$	p. 83, p. 159	p. 79, p. 155

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.

1. Cover page* (This page is not counted in the page limit.)
2. Table of contents
3. Contents
4. Appendices/ graphs/ references
5. 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.

2. 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.
3. The content pages **SHOULD NOT** include the names of team members and the school at which they are studying.
4. Each participating team needs to submit the following items in **SOFT COPY** (PDF format):
 - Written business proposal; and
 - An HKICPA cover sheet.
5. Save the proposal and cover sheet 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)
6. Each participating team should send the TWO PDF files **in one email** to amcc@hkipa.org.hk, with the subject as "Accounting and Business Management Case Competition 2020-21 (Level 2)". **Multiple submissions will be disqualified.**
7. The deadline for submission: **Before 23:59, 19 February 2021** (the email receiving time by the HKICPA's mailbox shall prevail).
8. 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.
9. Please scan the QR code on the right to complete an online questionnaire for 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 your 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: _____