

BASIC FINANCIAL RATIO ANALYSIS AND IMPLICATION

基礎財務報表比率分析

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TWG 捷榮



An Overview

- Tsit Wing's 2019 Annual Report
- Ratio Analysis Illustration
 - i. Profitability
 - ii. Management Efficiency
 - iii. Liquidity
 - iv. Solvency
 - v. Investment Appraisal

Tsit Wing's website: http://www.twcoffee.com/en/announcements?page_num=1.

2019 Annual Report is announced on 31 March 2020

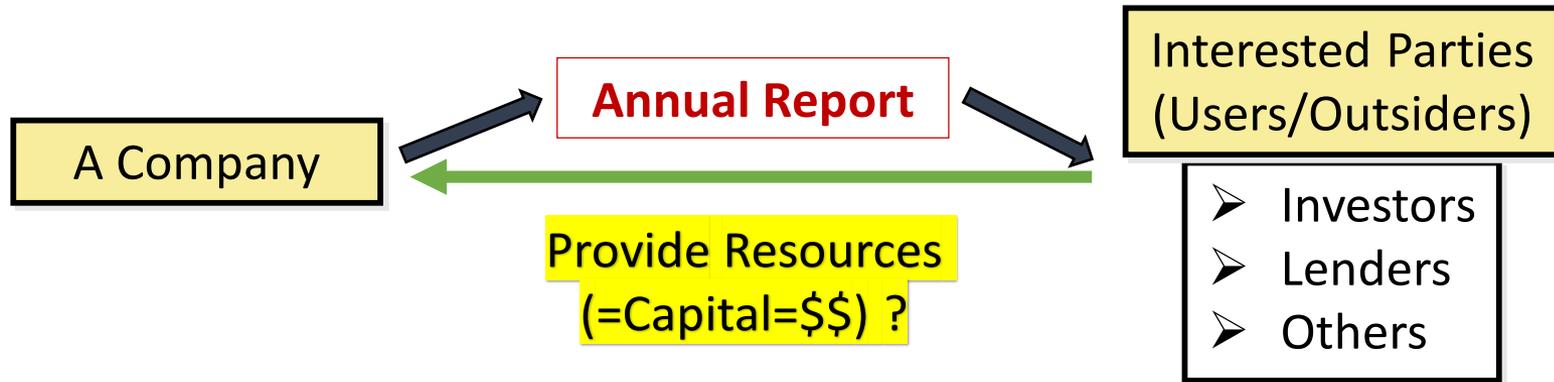


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Tsit Wing (捷榮) Annual Report 2019

Annual Report 年報



- Annual reports are the top sources of information for shareholders, lenders etc.
- Annual reports provide information about the company, for example, visions, goals, and strategies to financial information.
- Substance over form (實質重於形式) – Information users should make the financial decisions based on the substance of the annual reports, i.e. audited **financial statements**.

Tsit Wing's B2B Business

Management Discussion and Analysis 管理層討論及分析

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BUSINESS REVIEW

Being a leading integrated B2B coffee and black tea solutions provider in Hong Kong, Macau and Mainland China providing one-stop coffee and tea solutions to commercial customers covering the entire value chain from coffee and tea procurement, processing and distribution, the Group has also expanded its foods segment during the past few years. In order

業務回顧

本集團作為於香港、澳門及中國內地領先的綜合B2B咖啡及紅茶餐飲策劃服務供應商，為商業客戶提供一站式咖啡及紅茶餐飲策劃服務，涵蓋整個咖啡及紅茶採購、加工及分銷價值鏈，於過去幾年亦擴展其食品分部。為了(i)配合整體業務策略，利用其現有的銷售網路在企

Products and Services (商品和服務)



Commercial Customers 商業客戶



Tsit Wing's 2019 Performance



During Jan 1 – Dec 31, 2019

Products and Services
(商品和服務)



Commercial Customers
商業客戶 (B2B)



As of Dec 31,
2019



+ Income 收入	<ul style="list-style-type: none"> • Revenue 銷貨收入 • Other income
- Expense 支出	<ul style="list-style-type: none"> • Cost of sales 銷貨成本 • Selling & ... exp. • Admin exp • Other exp. • Finance costs • Income tax

Assets 資產	Economic resources => + cash in future
Liabilities 負債	Obligations => - Cash in future
Equity 股東權益	Assets - Liabilities

Tsit Wing's Consolidated Financial Statements

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GROUP
集團

A parent company (母公司)

E.g. Cathay Pacific 國泰

Its subsidiaries (子公司/附屬機構)

E.g. Dragonair/Cathay Dragon 港龍



Consolidated financial statements aggregate the financial statements of a parent and its subsidiaries

→ Reveal the overall health of an entire group (集團) as opposed to each company's standalone (單獨) position.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (INCOME STATEMENT) 綜合損益表

Consolidated Statement of Profit or Loss
綜合損益表

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Income

Revenue Recognition (收入確認) Principle:

Companies recognize revenue when the performance obligation (delivery of goods) is satisfied.

Expense

Expense Recognition (支出確認) Principle:

Companies recognize expenses when there are outflows or “using up” of resources as a result of conducting its business activities.

Consolidated Statement of Profit or Loss

綜合損益表

Year ended 31 December 2019
截至2019年12月31日止年度

For the figures in both 2019 and 2018, refer to the Group's consolidated financial statements in 2019.

Apply the results from continuing operation only.

	Notes 附註	2019 2019年 HK\$'000 千港元	2018 2018年 HK\$'000 千港元
CONTINUING OPERATIONS	持續經營業務		
REVENUE	收入	5	784,998
Cost of sales	銷售成本		(475,166)
Gross profit	毛利		309,832
Other income	其他收入	5	5,127
Selling and distribution expenses	銷售及分銷開支		(115,863)
Administrative expenses	行政開支		(79,204)
Other expenses, net	其他開支淨額		(5,104)
Finance costs	融資成本	6	(3,509)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	持續經營業務除稅前溢利	7	111,279
Income tax expense	所得稅開支	10	(21,466)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	持續經營業務所得年內溢利		89,813
DISCONTINUED OPERATION	已終止業務		
(LOSS)/PROFIT FOR THE YEAR FROM A DISCONTINUED OPERATION	一間已終止業務所得年內(虧損)/溢利		(13,523)
PROFIT FOR THE YEAR	年內溢利		77,480

- Income**
- Revenue
 - Other income
- Expense**
- Cost of sales
 - Selling & ... exp.
 - Admin exp
 - Other exp.
 - Finance costs
 - Income tax

Please ignore the impact of the discontinued operation on the Group's profit or loss in both years.

Consolidated Statement of Profit or Loss

綜合損益表

Year ended 31 December 2019

截至2019年12月31日止年度

Expense

- Cost of sales
- Selling & ... exp.
- Admin exp
- Other exp.
- Finance costs
- Income tax

Income

- Revenue
- Other income

		Notes 附註	2019 2019年 HK\$'000 千港元	2018 2018年 HK\$'000 千港元
CONTINUING OPERATIONS	持續經營業務			
REVENUE	收入	5	784,998	831,072
Cost of sales	銷售成本		(475,166)	(516,894)
Gross profit	毛利		309,832	314,178
Other income	其他收入	5	5,127	2,968
Selling and distribution expenses	銷售及分銷開支		(115,863)	(117,147)
Administrative expenses	行政開支		(79,204)	(91,770)
Other expenses, net	其他開支淨額		(5,104)	(11,068)
Finance costs	融資成本	6	(3,509)	(4,513)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	持續經營業務除稅前溢利	7	111,279	92,648
Income tax expense	所得稅開支	10	(21,466)	(19,408)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	持續經營業務所得年內溢利		89,813	73,240

= Revenue – Cost of sales

稅前淨利

利息及稅前淨利

稅後淨利

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)

綜合財務狀況報告表 (資產負債表)

Consolidated Statement of Financial Position
綜合財務狀況表

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Assets 資產	<i>Non-Current Assets</i> 非流動資產	Economic resources => + cash in future (more than 1-year) E.g. Property, plant & equipment 房產, 廠房及機器
	<i>Current Assets</i> 流動資產	Economic resources => + cash in future (less than 1-year) E.g. Inventories 存貨
Liabilities 負債	<i>Non-Current Liabilities</i> 非流動負債	Obligations => - Cash in future (more than 1 year)
	<i>Current Liabilities</i> 流動負債	Obligations => - Cash in future (less than 1 year) E.g. Trade Payables 應付款項
Equity 股東權益		Assets - Liabilities

Consolidated Statement of Financial Position

綜合財務狀況表

31 December 2019
2019年12月31日



For the figures in both 2019 and 2018,
refer to the Group's consolidated
financial statements in 2019.

		Notes 附註	2019 2019年 HK\$'000 千港元	2018 2018年 HK\$'000 千港元
NON-CURRENT ASSETS	非流動資產			
Property, plant and equipment	物業、廠房及設備	14	147,405	102,683
Prepaid land lease payments	預付土地租賃付款	15	—	10,920
Goodwill	商譽	16	—	15,447
Intangible assets	無形資產	17	419	2,873
Deposits paid for purchases of items of property, plant and equipment	已付購置物業、廠房及設備 項目按金		10,324	3,602
Prepayments, deposits and other receivables	預付款項、按金及其他應收 款項	20	5,024	3,819
Deferred tax assets	遞延稅項資產	27	2,460	2,783
Total non-current assets	非流動資產總值		165,632	142,127
CURRENT ASSETS	流動資產			
Inventories	存貨	18	125,748	205,795
Trade receivables	貿易應收款項	19	118,855	163,848
Prepaid land lease payments	預付土地租賃付款	15	—	393
Prepayments, deposits and other receivables	預付款項、按金及其他應收 款項	20	12,852	19,577
Tax recoverable	可收回稅項		205	1,117
Cash and cash equivalents	現金及現金等價物	21	315,211	328,684
Total current assets	流動資產總值		572,871	719,414



CURRENT LIABILITIES	流動負債			
Trade and bills payables	貿易應付款項及應付票據	22	73,567	91,240
Accruals and other payables	應計款項及其他應付款項	23	50,854	49,904
Derivative financial instruments	衍生金融工具	24	568	—
Interest-bearing bank borrowings	計息銀行借款	25	26,154	139,003
Lease liabilities	租賃負債	26	14,966	—
Tax payable	應付稅項		3,655	4,079
Total current liabilities	流動負債總額		169,764	284,226
NON-CURRENT LIABILITIES	非流動負債			
Interest-bearing bank borrowings	計息銀行借款	25	—	17,217
Lease liabilities	租賃負債	26	12,709	—
Deferred tax liabilities	遞延稅項負債	27	6,295	5,771
Total non-current liabilities	非流動負債總額		19,004	22,988
EQUITY	權益			
Equity attributable to owners of the parent	母公司擁有人應佔權益			
Share capital	股本	28	76,394	76,207
Reserves	儲備	29	473,341	460,301
			549,735	536,508
Non-controlling interests	非控股權益		—	17,819
Total equity	權益總額		549,735	554,327

Ratio Analysis

Ratio analysis expresses the relationship among selected items of financial statement data.

Five Financial Ratio Classifications

Profitability 盈利能力

Management Efficiency 管理效率

Liquidity 流動資金

Solvency 償債能力

Investment Appraisal 投資回報

For Level 1 competition:

The closing balances of assets and liabilities are adopted for simplicity.

Ratio Analysis - Illustration

Notes:

- All sales were on account.
- All purchases were on account.
- At 1.1.2018, inventories were \$20,000.

ABM Limited
Consolidated Statement of Profit or Loss 綜合損益表
For the Year Ended December 31

	2019	2018
Revenue 收入	\$ 450,000	\$ 300,000
Cost of sales 銷貨成本	380,000	250,000
Gross profit 毛利	70,000	50,000
Selling and distribution 銷售及分銷開支	7,000	6,000
Administrative expenses 行政開支	30,000	20,000
Other income and expenses 其他收入及開支	0	0
Finance costs 利息/融資成本	1,500	1,500
Profit before tax 稅前淨利	31,500	22,500
Income tax expense 所得稅開支	5,000	3,000
Profit for the year 全年稅後淨利	\$ 26,500	\$ 19,500

Ratio Analysis - Illustration

ABM Limited Consolidated Statement of Financial Position 綜合財務狀況表

December 31

	2019	2018
ASSETS 資產		
NON-CURRENT ASSETS 非流動資產		
• Property, plant and equipment (net) 房產, 廠房及機器 (淨值)	\$ 39,000	\$ 28,500
Total non-current assets	39,000	28,500
CURRENT ASSETS 流動資產		
• Inventory 存貨	\$ 50,000	\$ 30,000
• Trade receivable (net) 應收帳款 (淨值)	100,000	85,000
• Cash 現金	1,000	1,000
Total current assets	151,000	116,000
Total assets	\$ 190,000	\$ 144,500
LIABILITIES AND EQUITY 負債及股東權益		
NON-CURRENT LIABILITIES 非流動負債		
• Interest-bearing bank borrowings 計息銀行借款	\$ 12,000	\$ 18,000
Total non-current liabilities	12,000	18,000
CURRENT LIABILITIES 流動負債		
• Trade payable 應付帳款	\$ 80,000	\$ 70,000
• Income taxes payable 利得稅應付款項	30,000	15,000
Total current liabilities	110,000	85,000
Total liabilities	\$ 122,000	\$ 103,000
SHAREHOLDERS' EQUITY 股東權益		
• Share capital 股本 (\$2 par 面值)	\$ 22,000	\$ 22,000
• Reserves 儲備	46,000	19,500
Total shareholders' equity	68,000	41,500
Total liabilities and equity	\$ 190,000	\$ 144,500

Profitability Ratios 盈利能力比率

Measure the **income or operating success** of a company for a given period of time.

- How well management is doing at **controlling costs (成本控制)**, so that a large proportion of the goods sold per dollar is converted into profit
- Income, or the **lack** of it, affects the company's ability to obtain debt and equity financing, liquidity position, and the ability to grow.

Profitability Ratios:	
• Mark-up	加成
• Gross profit margin	毛利率
• Net profit margin	淨利率
• Return on capital employed (ROCE)	運用資金報酬率

Profitability Ratios 盈利能力比率

Mark up 加成

- Measures the profit earned for each one dollar of cost of sales.

Formula:	$\frac{\text{Gross Profit 毛利}}{\text{Cost of Sales 銷貨成本}}$	
	2019	2018
Working:		
Results:		
Comments:		

Profitability Ratios 盈利能力比率

Gross Profit Margin 毛利率

- Measures the percentage of each dollar of revenue that results in gross profit.
- The gross profit is used to cover operating and other expenses, and the remainder is net profit.

Formula:	$\frac{\text{Gross Profit 毛利}}{\text{Revenue 收入}}$	
	2019	2018
Working:		
Results:		
Comments:		

Profitability Ratios 盈利能力比率

Net Profit Margin 淨利率

- Measures the percentage of each dollar of revenue that results in net income.

Formula:

$$\frac{\text{Net Profit Before Tax 稅前淨利}}{\text{Revenue 收入}}$$

2019

2018

Working:

Results:

Comments:

Profitability Ratios 盈利能力比率

Return on Capital Employed (ROCE) 運用資金報酬率

- Rate of return based on the book value of long-term capital investment made in the business.

Formula:	$\frac{\text{Profit Before Interest and Tax 利息及稅前淨利}}{\text{Capital Employed 運用資金,}} \\ \text{i.e., Non-current Liability 非流動負債 + Equity 股東權益}$	
	2019	2018
Working:		
Results:		
Comments:		

Management Efficiency Ratios 管理效率

Measures a company's ability to use its assets to generate income.

- Evaluates the levels of output generated by the assets (input) used by a company.
- Ratios include:

Profitability Ratios:

- | | |
|---------------------------|--------|
| • Inventory turnover | 存貨周轉 |
| • Trade payables turnover | 應付貨款周轉 |
| • Total assets turnover | 總資產周轉 |

Management Efficiency Ratios 管理效率

Inventory Turnover 存貨周轉

- the number of times, on average, the inventory is sold during the period.

Formula:

$$\frac{\text{Cost of Sales 銷售成本}}{\text{Inventory 存貨}}$$

	2019	2018
Working:		
Results:		
Comments:		

Management Efficiency Ratios 管理效率

Trade Payables Turnover 應付貨款周轉

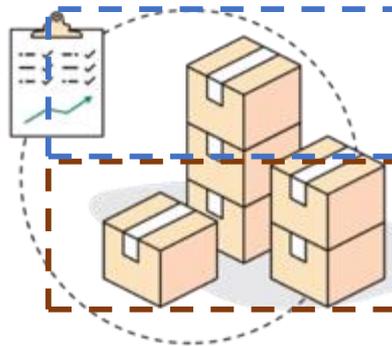
- the number of times, on average, payables are settled during the period.

Notes:

- All purchases were on account.

Opening Inventory
期初存貨

Credit Purchases 賒



UN SOLD
=> Closing Inventory 期末存貨

SOLD
=> Cost of Sales 銷貨成本

Formula:

Credit Purchases 賒購,
i.e., Cost of Sales + Closing Inventory – Opening Inventory
Trade Payables 應付貨款

Management Efficiency Ratios 管理效率

Notes:

- At 1.1.2018, inventories were \$20,000.

Trade Payables Turnover 應付貨款周轉

	2019	2018
Working:		
Results:		
Comments:		

- ✓ Whether these days are good or bad depend on the company goals.
- ✓ A company may pay suppliers in a shorter period of time for maintaining a good working relationship with them.
- ✓ While a longer credit period enjoyed by the company enables more liquid funds for operations.

Management Efficiency Ratios 管理效率

Total Assets Turnover 總資產周轉

- Measures how efficiently a company uses its assets to generate revenue.

Formula:	$\frac{\text{Revenue 收入}}{\text{Total Assets 總資產}}$	
	2019	2018
Working:		
Results:		
Comments:		

Liquidity Ratios 流動資金比率

Measures the short-term ability of the company to pay its maturing obligations and to meet unexpected needs for cash.

- Short-term creditors such as bankers and suppliers are particularly interested in assessing liquidity.
- Ratios include:

Liquidity Ratios:

- | | |
|---------------------------------|------|
| • Current ratio | 流動比率 |
| • Quick ratio (Acid-test ratio) | 速動比率 |

Liquidity Ratios 流動資金比率

Current Ratio 流動比率

- for every dollar of current liabilities, the dollar amount of current assets the company has.
- A high current ratio indicates good liquidity.

Formula:

$$\frac{\text{Current Assets 流動資產}}{\text{Current Liabilities 流動負債}}$$

	2019	2018
Working:		
Results:		
Comments:		

Liquidity Ratios 流動資金比率

Quick Ratio 速動比率

- measures immediate liquidity.

Formula:

$$\frac{\text{Current Assets 流動資產} - \text{Inventories 存貨} - \text{Prepayments 預付款項}}{\text{Current Liabilities 流動負債}}$$

2019

2018

Working:

Results:

Comments:

Solvency Ratios 償債能力比率

Solvency ratios measure the ability of a company to survive over a long period of time.

➤ Ratio includes:

- **Gearing ratio** 槓桿比率



Solvency Ratios 償債能力比率

Gearing Ratio 槓桿比率

- Measures the capital structure.

Formula:

$$\frac{\text{Interest-bearing Bank Borrowings 計息銀行借款}}{\text{Share Capital 股本 + Reserves 儲備}}$$

2019

2018

Working:

Results:

Comments:

Investment Appraisal 投資評估

- To show the management preference in dividends and retention of reserve.
- Measures the amount of **return on an investment**.
- Ratio includes:

- **Earning per Share (EPS)**

每股盈利

Investment Appraisal 投資評估

Earnings Per Share (EPS) 每股盈利

- Measures the net income earned on each share of ordinary share, if all profits were distributed at the end of the year.

	2019	2018
Formula:	Profit for the year 全年稅後淨利 <u>捷榮: Profit Attributable to Owners of the Parent 母公司擁有人應佔溢利</u> Weighted-average No. of Ordinary Shares 普通股加權平均數	
Working:		
Results:		
Comments:		

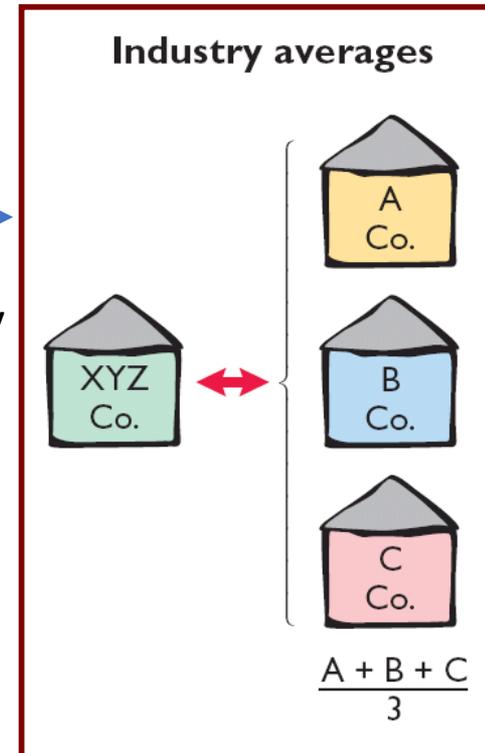
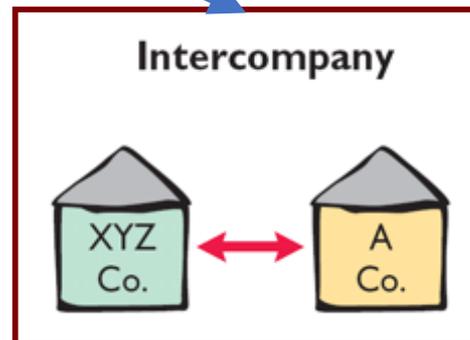
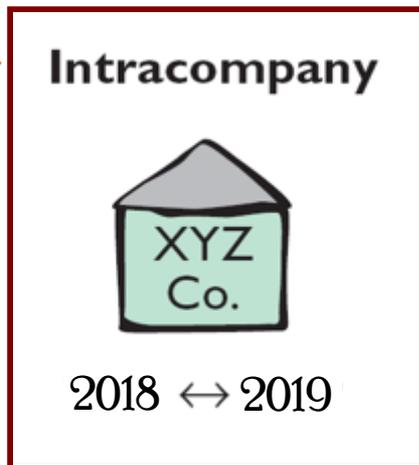
(11,000 shares = \$22,000 Share Capital / \$2 par value 面值)

Importance of Relative Financial Ratios

In order to make sense of a ratio, we must compare it with some appropriate benchmarks (合適基準)

Examine a company's performance relative to:

- Its own past performance (過往表現)
- Aggregate economy (經濟情況)
- Its industry (行業)
- Its major competitors (競爭對手) within the industry



Importance of Relative Financial Ratios

More importantly, the focus is not on individual ratios, but rather to allow for trade-off of one ratio against another:

- A fall in revenue (收入) may be compensated by a higher profitability ratio (盈利能力比率).
- A high gearing (槓桿比率) may not be a great concern in light of good profitability and liquidity (良好盈利能力及流動性).

