

### The HKICPA Accounting and

### Business Management

### Case Competition

**2018-19**

### (Level 1)

Hong Kong Television Network Limited (HKTV), together with its subsidiaries (hereinafter referred to as the “Group”) currently engages in the development of Hong Kong's largest 24-hour online shopping mall, HKTVmall. As an innovative retail leader, HKTV’s products and services range from online shopping, entertainment, delivery service for local residential areas to impressive customer experience. HKTV has grown rapidly in the past three years since the official launch of HKTVmall in February 2015.

HKTV possesses extensive and successful experience in telecom liberalization and applications from its legacy City Telecom (H.K.) LTD. (City Telecom), established in 1992 and listed on the Main Board of the Stock Exchange of Hong Kong Limited in August 1997, with stock code:1137. In January 2013, HKTV was renamed from City Telecom. In recent years, motivated by the fact that Hong Kong lagged its neighbourhood areas in e-commerce development, HKTV has been focusing on promoting local e-commerce.

HKTV’s online shopping platforms achieved 7,600 average daily order in December 2017, with a more than HK$500 average transaction value. Around 180 to 200 delivery trucks are in operation daily for the end-to-end residential and commercial delivery. An increasing product category, from supermarket and grocery products to electronics and household products are supported by three logistics centres with a floor area over 224,000 square feet at Tsing Yi, Tseung Kwan O, and Kwai Chung. Since early 2018, the logistic center in Tsing Yi has been transmitted from fully manual operation to a robotic & automatic picking & warehousing system. A recent initiative is to open OTO (online to offline) physical shops to enhance its presence to the community and attract customers to pick up their online orders. HKTV also accelerated its expansion through the acquisition of Groupon HK in March 2017, which is rebranded as “HoKoBuy” in June 2017, to complement its e-voucher segment.

During the financial year ended 31 December 2017, the Group enjoyed a strong growth in revenue to HK$487.3 million (2016: HK$187.1 million), which is, however, partially net off by the increase in costs of inventories to HK$295.2 million (2016: HK140.3 million). The Group recorded an operating expense of HK$568.6 million in 2017 (2016: HK$380.5 million) mainly for continued expansion of logistics & warehouse functions and related workforce. Overall, HKTV incurred a loss of HK$204.9 million in 2017, an improvement of HK$52.2 million from the 2016 loss of HK$257.1 million.

**REQUIRED**

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

1. **Financial analysis**

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

Instructions:

1. Use the information on **HKTV** **Group’s consolidated financial statements** to prepare your answers.
2. Apply “Year-end” (i.e. December 31) figures on Consolidated Statement of Financial Position to work out your answers for this part.

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Formula | | | | | Ratios | | Annual Report  Ref. page | | |
|  |  | | | | | 2017 | 2016 | 2017 | | 2016 |
| **Profitability ratios** | | | | | | | | | | |
| Mark up | \_\_\_\_\_Gross Profit\_\_\_\_\_  Cost of Goods Sold | | | x 100% | | \_\_\_\_\_% | % | p.57 | | p.52 |
| Gross Profit Margin | Gross Profit \_\_\_  Sales | | | x 100% | | % | % | p.57 | | p.52 |
| Net Profit Margin | Net Profit Before Tax  Sales | | | x 100% | | % | % | p.57 | | p.52 |
| Return on Capital Employed | \_Profit Before Interest and Tax\_  Capital Employed | | | x 100% | | % | % | p.57, p.59 | | p.52,  p.55 |
| (Hints: Capital Employed *for Limited Companies* = Non-current Liabilities + Shareholders’ Fund) | | | | | | | | | |
| Comments |  | | | | | | | | | |
| **Management Efficiency ratios** | | | | | | | | | | |
| Inventory Turnover | | \_\_Cost of Goods Sold\_\_  Inventory |  | | | times | \_ \_times | p.57, p.59,  p.94 | | p.52,  p.54, p.85 |
| Inventory Turnover Period | | \_\_\_\_\_Inventory \_\_ \_\_\_  Cost of Goods Sold | x 365 days | | | days | \_\_\_days |
| (Hints: Cost of goods sold = Opening Inventories + Credit Purchases – Closing Inventories) | | | | | | | | |
| Trade Payables Turnover | | \_Credit Purchases\_\_  Trade Payables |  | | | \_\_\_times | \_\_ times | p.57, p.59,  p.94, p.95 | | p.52,  p.54, p.85,  p.89 |
| Trade Payables Repayment Period | | \_Trade Payables\_\_  Credit Purchases | x 365 days | | | \_\_\_ days | \_\_ days |
| Total Assets Turnover | | \_\_ Sales\_\_\_\_\_  Total Assets |  | | | \_\_ times | \_\_ times | p.57, p.59 | | p.52,  p.54 |
| Comments | |  | | | | | | | | |
| **Liquidity ratios** | | | | | | | | | | |
| Current Ratio | \_\_\_\_ Current Assets\_\_\_\_\_\_  Current Liabilities | | | | | \_ \_ :1 | \_\_ :1 | | p.59 | p.54 |
| Quick Ratio | Current Assets – Inventories – Prepayments  Current Liabilities | | | | | \_\_\_\_\_\_:1 | \_\_\_\_ :1 | | p.59 | p.54 |
| Comments |  | | | | | | | | | |
| **Solvency ratios** | | | | | | | | | | |
| Gearing Ratio | Non-current Liabilities +  \_Preference Share Capital\_\_\_\_  Non-current Liabilities +  Shareholders’ Fund | | | | x 100% | \_\_\_\_ % | \_\_\_\_ % | | p.59,  p.98 | p.55,  p.90 |
| Comments |  | | | | | | | | | |
| **Return on investment ratios** | | | | | | | | | | |
| Earnings Per Share (EPS) | Profit attributable to owners of the Company  Number of ordinary shares issued | | | | | $ /share | $ /share | | p.57,  p.80 | p.52,  p.75 |
| 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 **HKTV** **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 **HKTV Group’s** 2016 and 2017 annual reports and information which are available at the Company’s website at <http://www.hktv.com.hk/eng/global/home.htm> or any other relevant sources.
2. You are required to carry out a tabular financial analysis for **the past TWO years, for the years ended 31 December 2016 and 2017**, 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** |
| [www.hkicpa.org.hk/en/become-a-hkicpa/exam-bafs/cpa-bm-case](http://www.hkicpa.org.hk/en/become-a-hkicpa/exam-bafs/cpa-bm-case) |
| **Competition Facebook Page** |
| [www.hkicpa.org.hk/facebook/casecomp](http://www.hkicpa.org.hk/facebook/casecomp) |
| **Hong Kong Television Network Limited** **website** |
| <http://www.hktv.com.hk/eng/global/home.htm> |

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

Date: 10 November 2018 (Saturday)  
Time: 9:15 a.m. – 12:45 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 2018-19 (Level 1)". **Multiple submissions will be disqualified.**

1. The deadline for submission: **Before** **23:59, 15 February 2019** (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 2018-19 (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 names should be identical to the one you have provided on the application form, 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:***

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