

### The HKICPA Accounting and

### Business Management

### Case Competition

**2018-19**

### (Level 2)

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**

Although Hong Kong is witnessing steady growth in e-commerce, online shopping constitutes a small portion compared with traditional shopping in the physical malls. During three years’ operation and particularly in 2017, HKTV grows exponentially by being the “One App to provide a One-Stop-Shop” solution to all consumers in Hong Kong. However, with substantial expenditure to be invested to develop the business, HKTV may not be able to generate significant revenue and profit from its online shopping in the near future.

Hong Kong Television Network Limited has invited you, as a management consultant, to prepare a business proposal to:

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| --- | --- |
| Part I | Review **HKTV** **Group’s** overall financial performance for the past TWO years, for the years ended 31 December 2016 and 2017; and |
|  |  |
| Part II | Formulate a business plan of HK$10 million for the coming TWO years (i.e. for the years ending 31 December 2019 and 2020) to further enhance the performance of **HKTV** **Group’s online shopping operations in Hong Kong.** |

Your business proposal should include the following:

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| --- | --- |
| A) | Executive summary |
|  | A concise summary of **HKTV Group’s** vision, the current state of business, strategic direction of its online shopping operations, 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) |
|  |  |
| C) | Part I – An overall review of **HKTV Group’s** financial performance  A comprehensive analysis of **HKTV** **Group’s** financial performance for the years ended 31 December 2016 and 2017 with appropriate interpretation:  Instructions: Apply “**Average**” figures (e.g. Average inventory for year 2017 = 1/2 x (inventory at 1.1.2017 and 31.12.2017; Average inventory for year 2016 = 1/2 x (inventory at 1.1.2016 and 31.12.2016) on Consolidated Statement of Financial Position 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 ratio (P/E ratio). (**HKTV Group’s** share price as at  29 December 2017: $3.34; as at 30 December 2016: $1.32) |
|  | (30 marks – approximately 4 pages) |
|  |  |
| D) | Part II - Formulate a business plan for **HKTV Group’s** **online shopping operations in Hong Kong.** |
|  | 1. The financial performance of **HKTV** **Group** for the years ended 31 December 2016 and 2017 in terms of trend analysis  * Review revenue, net profit before tax and net profit margin. * Review inventory turnover ratio and total asset turnover ratio |
|  | (10 marks – approximately 2 pages) |
|  |  |
|  | 1. SWOT analysis of **HKTV Group’s online shopping operations in Hong Kong**  * Non-financial analyses in terms of favorable/ unfavorable factors external and internal to the organization. |
|  | (20 marks – approximately 3 pages) |
|  |  |
|  | 1. Business plan  * A business plan of $10 million for launching a promotional project to improve **HKTV Group’s online shopping** **operations in Hong Kong**, which should be supported by a marketing expenses budget and implementation details. * In order to evaluate the effectiveness of your recommendations, you are required to analyze the projected impact on average daily orders, average transaction value and sales for the years ending 31 December 2019 and 2020. |
|  | (25 marks – approximately 4 pages) |
|  |  |
| E) | Conclusion |
|  | (5 marks – approximately 1 page) |
|  |  |
| F) | Appendices   * References, glossary of terms * Details of market research (if any) |
|  | (2 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 on **HKTV Group’s** website 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 2016 and 2017**, make sure all calculations are supported by appropriate formulae as attached on p.6 **(Annex 1)**.
3. In preparing the business proposal, you should:
   * + - ensure that all your suggestions and recommendations are in line with **HKTV 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.
4. To obtain more precise projections on business plan of 2019 and 2020, you should refer to **HKTV Group's** website for the latest financial reports which will be available in early January 2019.

**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

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| --- | --- |
| Topics: | Basic financial ratio analysis and implication; and Recap of major business and  management concepts |

**Free Business seminar (Level 2 participants)**

Date: 28 December 2018 (Wednesday)

Time: 1:30 p.m. – 5:30 p.m.

Venue: 27/F, Wu Chung House, 213 Queen's Road East, Wanchai

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| Topics: | Deriving important information from financial statement; Methods of analyzing trends; Basic budget preparation; Proposal writing skills; Business management and marketing strategies; and Operations of HKTV |

**Annex 1**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Formula | | | Annual Report  Ref. page | |
|  |  | | | 2017 | 2016 |
| **Profitability Ratios** | | | | | |
| 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 | Net Profit Before Interest and Tax  Average Capital Employed | x 100% | | p.57, p.59 | p.52, p.55 |
| Return on Average Assets | Net Profit After Tax  Average Total Assets | x 100% | | p.57, p.59 | p.52,  p.54 |
| **Management Efficiency Ratios** | | | |  |  |
| Average Inventory Turnover Period | Average Inventory  Cost of Goods Sold | x 365 days | | p.57, p.59,  p.94 | p.52,  p.54, p.85 |
| Average Trade Payables Repayment Period | Average Trade Payables  Credit Purchases | x 365 days | | p.57, p.59,  p.94, p.95 | p.52,  p.54, p.85,  p.89 |
| **(Hints: Cost of Goods Sold = Opening Inventories + Credit Purchases – Closing Inventories)** | | | | |
| Total Assets Turnover | Sales  Average Total Assets | | | p.57, p.59 | p.52,  p.54 |
| **Liquidity Ratios** | | | | | |
| Current Ratio | Current Assets  Current Liabilities | | | p.59 | p.54 |
| Quick Ratio | Current Assets – Inventories – Prepayments  Current Liabilities | | | p.59 | p.54 |
| Cash Ratio | Cash and Cash Equivalents  Current Liabilities | | | p.59 | p.54 |
| **Solvency Ratios** | | | | | |
| Gearing Ratio | Non-current Liabilities +  Preference Share Capital  Non-current liabilities +  Shareholders’ equity | | x 100% | p.59,  p.98 | p.55,  p.90 |
| Debt to Equity Ratio | Total Liabilities  Shareholders' Equity | | x 100% | p.59 | p.54-55 |
| Time Interest Earned | Profit Before Interest and Tax  Interest Expense | | | p.57 | p.52 |
| **Return on Investment Ratios** | | | | | |
| Earnings Per Share (EPS) | Profit Attributable to Owners of the Company  Number of Ordinary Shares Issued | | | p.57,  p.80 | p.52,  p.75 |
| Price-Earnings Ratio  (P/E ratio) | Current Price per Ordinary Share  Earnings Per Share (EPS) | | | p.57,  p.80 | p.52,  p.75 |

**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 15 pages of A4 paper  
Chinese proposal – 8 to 12 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](mailto:amcc@hkicpa.org.hk), with the subject as "Accounting and Business Management Case Competition 2018-19 (Level 2)". **Multiple submissions will be disqualified.**

1. The deadline for submission: **Before** **23:59, 18 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 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 one you have provided on the application form, 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: |  |