



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

**The HKICPA Accounting and
Business Management
Case Competition**

2022-23

**Secondary School Group
(Level 2)**

Case background

Kerry Logistics Network Limited (KLN), together with its subsidiaries (hereinafter referred to as the “Group”) operates as a leading logistics service provider in Asia. Its principal activities are (i) integrated logistics (IL) services, including storage and value-added services, trucking and distribution, returns management, and various ancillary services, primarily in Asia; and (ii) international freight forwarding (IFF) services intra-Asia and between Asia and Europe to transport cargo using air freight, ocean freight, and cross-border road freight forwarding services. With a global presence across 59 countries and territories, KLN is the largest international logistics company listed on the Main Board of The Stock Exchange of Hong Kong Limited (Stock Code 0636.HK).

The COVID-19 pandemic has severely affected the global supply chain owing to the mismatch between supply and demand, freight capacity chokeholds, port congestions, labour shortages, the shutdown of borders, and lockdowns. Specifically, KLN’s IL business shrank in 2021, mainly due to a weak Asian market with manufacturing and consumption-related activities disrupted by many prolonged lockdowns and other pandemic measures. For example, Hong Kong’s implementation of pandemic-induced social distancing measures caused a depression in particular retail activities and led to a contraction in the Group’s IL business.

On the other hand, the Group’s IFF business extraordinarily expanded with customers relying on the Group’s in-depth industry know-how, its extensive connections to ground operations, and its global network, especially for exports from Asia to North America and Europe. The Group has experienced more urgent fulfilment orders and ever more complex demand to overcome the multifaceted hurdles in the supply chain.

For the year ended 31 December 2021, the Group recorded a revenue of HK\$78,954.7 million from continuing operations, representing a 59.1% increase from the year ended 31 December 2020 (2020: HK\$49,617.2 million, restated). The Group’s profit from continuing operations increased by 182.9%, from HK\$1,507.8 million in 2020 to HK\$4,265.1 million in 2021.

The Group entered into a strategic partnership with S.F. Holding in late 2021 to further enhance its overall competitiveness and become S.F. Holding’s platform for international business and international freight forwarding agent for international express services. Such a strategic partnership will give KLN an unparalleled advantage as Asia’s largest 3PL (third party logistics) provider to tackle the uncertain market challenges ahead.

REQUIRED

The COVID-19 pandemic severely curtailed human mobility and highlighted the importance of logistics: to transport and deliver raw materials, work in progress (WIP), and finished goods. **Kerry Logistics Network Limited (KLN)** faces the challenges of capacity chokeholds but enjoys an increasing demand for more value-added services.

Meanwhile, **KLN** should pursue sustainability besides profit maximization. A responsible corporate citizen creates long-term value for its stakeholders, such as the environment, employees, business partners, and the community.

KLN has invited you, as a management consultant, to prepare a business report to:

- Part I Review **KLN Group's** overall financial performance for the past TWO years ending 31 December 2020 and 2021, respectively;
- Part II Conduct a SWOT analysis of **KLN Group's** competitive position in the logistics industry; and
- Part III Review and comment on **KLN Group's** sustainability approach.

Your business report should include the following:

- A) Business Summary
 - (i) A concise introduction of **KLN Group's** two business segments, integrated logistics (IL) and international freight forwarding (IFF), respectively; and
 - (ii) A brief discussion on how the COVID-19 pandemic affects each **KLN Group's** business segment.

(8 marks – approximately 1.5 pages)
- B) Part I – A comprehensive financial analysis of KLN Group for the past TWO years ending 31 December 2020 and 2021, respectively, with appropriate interpretation:

Instructions:

- Refer to the “continuing operations” of 2020 and 2021 on the Consolidated Income Statement in the **2021 Annual Report**. The 2020 information has been restated and shown in the 2021 Annual Report.
 - Refer to the **2021 Annual Report** for the Consolidated Statement of Financial Position on 31.12.2021 and 31.12.2020.
 - For all ratios, show calculation workings and keep two decimal places.
 - Interpret the financial performance based on the ratios you calculated.
- (i) Profitability in terms of
 - gross profit margin ratio,
 - net profit margin ratio,
 - return on average assets ratio; and
 - (ii) Management efficiency in terms of
 - average total assets turnover; and
 - (iii) Short-term liquidity in terms of
 - current ratio,
 - cash ratio; and

- (iv) Long-term solvency in terms of
- time interest earned;
 - debt to equity ratio; and
- (v) Investment ratios in terms of
- earnings per share (EPS); and
 - price-earnings (P/E) ratio. (KLN's share price as at 31 December 2021: \$19.06; as at 31 December 2020: \$17.00)
- (35 marks – approximately 5 pages)
- C) Part II – SWOT analysis of non-financial factors **favourable / unfavourable** to **KLN Group's** logistic business and **internal / external** conditions.
- (16 marks – approximately 3 pages)
- D) Part III – Evaluate **KLN Group's** sustainability practices.

Instructions:

- Refer to the **2021 Annual Report** and **2021 Sustainability Report**.
- Apply your research and provide your own opinion when appropriate.

*Hints: **KLN Group** identifies six stakeholders in the **2021 Annual Report** and the **2021 Sustainability Report**.*

For example, Employees

- need a safe and healthy workplace for their physical and mental health
- are protected from COVID-19 through preventive measures such as disinfection.
- of diverse backgrounds and disabilities appreciate a disabled washroom and a prayer room at the Hong Kong headquarters.
- are the key to providing exceptional services.

- (i) Select THREE **KLN Group's** key stakeholders and illustrate how the **Group's** operations affect each stakeholder.
- (9 marks – approximately 1.5 pages)
- (ii) Regarding the THREE stakeholders you discussed in (i), discuss the practices **KLN Group** has adopted and demonstrate the benefit **KLN Group** can enjoy in return.
- (15 marks – approximately 3 pages)
- (iii) Suggest TWO further actions **KLN Group** may consider (not restricted to those areas you discussed in i. and ii. above). Support your suggestions with some implementation detail.
- (10 marks – approximately 2 pages)
- E) Conclusion (5 marks – approximately 1 page)
- F) Appendices, including References, a glossary of terms, and details of research (if any)
- (2 marks)

(Total: 100 marks)

Notes

- (1) In preparing your analysis, you should refer to **KLN's** website for
 - i. 2021 and 2020 Annual Report at <https://www.kln.com/en/investors/financial-reports-presentations/>, and
 - ii. 2021 Sustainability Report at <https://www.kln.com/en/group/sustainability/sustainability-report/>.
- (2) You are required to carry out a detailed financial analysis for **the past TWO years** ending 31 December 2020 and 2021, respectively.
 - support your calculations using appropriate formulas as attached on p.5 (**Annex 1**); and
 - keep two decimal places in your answers.
- (3) In preparing the business report, you should:
 - ensure that all your suggestions and recommendations are in line with **KLN Group's** vision and strategic directions;
 - quote references from the annual reports with their page numbers;
 - state all relevant information such as academic publication, media coverage, survey findings, and copies of questionnaires, etc., (if any), under the **Appendices** section; and
 - state any underlying assumptions which justify your analyses and recommendations.

Useful reference

- (1) **HKICPA Accounting and Business Management Case Competition Website**
www.hkicpa.org.hk/amcc
- (2) **Kerry Logistics Network Limited website**
<https://www.kln.com/en/>

Annex 1

	Formula	2021 Annual Report Reference Page
(a) Profitability Ratios		
Gross Profit Margin	$\text{Gross Profit} / \text{Revenue} \times 100\%$	p. 96
Net Profit Margin	$\text{Profit Before Tax} / \text{Revenue} \times 100\%$	p. 96
Return on Average Assets	$\frac{\text{Profit for the Year from Continuing Operations}}{\text{Average Total Assets}} \times 100\%$	p. 96, p. 98
	<i>Hints:</i> <ul style="list-style-type: none"> - Average assets for 2021 = $1/2 \times (\text{assets at 1.1.2021 and 31.12.2021})$; and - Average assets for 2020 = $1/2 \times (\text{assets at 1.1.2020 and 31.12.2020})$. - Refer to the 2020 Annual Report (p. 128) for the Consolidated Statement of Financial Position on 31.12.2019 	
(b) Management Efficiency Ratios		
Average Total Assets Turnover	$\text{Revenue} / \text{Average Total Assets}$	p. 96, p. 98
	<i>Hints:</i> <ul style="list-style-type: none"> - Average assets for 2021 = $1/2 \times (\text{assets at 1.1.2021 and 31.12.2021})$; and - Average assets for 2020 = $1/2 \times (\text{assets at 1.1.2020 and 31.12.2020})$. - Refer to the 2020 Annual Report (p. 128) for the Consolidated Statement of Financial Position on 31.12.2019 	
(c) Short-term Liquidity Ratios		
Current Ratio	$\text{Current Assets} / \text{Current Liabilities}$	p. 98
Cash Ratio	$\text{Cash and Bank Balances} / \text{Current Liabilities}$	p. 98
(d) Long-term Solvency Ratios		
Time Interest Earned	$\frac{\text{Profit Before Taxation} + \text{Financing Expense}}{\text{Financing Expenses}}$	p. 96
Debt to Equity Ratio	$\text{Total Liabilities} / \text{Total Equity} \times 100\%$	p. 98, p. 99
(e) Investment Ratios		
Earnings Per Share (EPS)	$\frac{\text{Profit for the Year from Continuing Operations} - \text{attributable to the Company's shareholders}}{\text{Weighted-average No. of Ordinary Shares}}$	p. 96, p. 145
Price-earnings (P/E) Ratio	$\text{Current Price Per Share} / \text{Earnings Per Share (EPS)}$	p. 96, p. 145

REPORT FORMAT AND RULES

1. Each team should submit a business report 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 report – Arial (12 point) / Chinese proposal – 新細明體 (11 point). 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. 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 PDF files with respective file names being shown as:
 - "Team leader full name_ Team leader mobile phone no._ Business Proposal"
(e.g. *Chan Tai Man_98765432_Business Proposal*)
 - "Team leader full name_ Team leader mobile phone no._ Cover Sheet"
(e.g. *Chan Tai Man_98765432_Cover Sheet*)
6. Send the TWO PDF files **in one email** to amcc@hkipa.org.hk, with email subject named as "Level 2_Chun Tai ". **Multiple submissions will be disqualified.**
7. The deadline for submission: **Before 23:59, 17 February 2023** (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 2022-23

(Level 2)

Cover Sheet

Please attach this cover sheet to your business proposal

(Please complete in BLOCK LETTERS)

School name _____

Participants information:

**Please use BLOCK LETTER to fill in below information. The names provided below should be identical to the name of participants' identity card, which will be used for printing certificate.*

Name of Team leader	
Email address	
Contact number	

Team members

Name of Team Member 1	
Name of Team Member 2	
Name of Team Member 3 (if any)	
Name of Team Member 4 (if any)	

Document checklist:

- Email this cover sheet An business report in PDF format

^Any missing documents or incomplete analysis may result in the disqualification of your participation.

For official use:

Report received on	
Assigned Team no.	
Total marks	
Handled by	