Workshop Topics

Module B (December 2014)
Workshop 2

The case study presented is a premium hotel business whose shares are listed on the Hong Kong Stock Exchange. The business operates in Hong Kong, Australia, USA and other Asian countries.

The following main topics were covered in **Workshop 2**:

- **Working capital management**

  The working capital cycle and the extent which working capital management could reduce the need of the company for additional cash for its operations were discussed.

  Inventory management including the nature of inventories and the potential financial benefit to the company from reductions in inventories were evaluated. Moreover, the weaknesses in the current system of cash management and their effect on company performance were examined. Accounts receivable and accounts payable management as well as dividend policy were also discussed.

- **Interest rate swaps**

  The use of interest rate swaps to manage the balance between fixed and variable rate debt obligations was discussed. The reason why to use cross-currency interest rate swaps as a hedging instrument and the appropriateness of the company's policy for managing exposures to foreign exchange risk were evaluated.

- **Reconstruction of joint venture company**

  The impact of the announcement of financial reconstruction of the joint venture and the implications of the management reconstruction of the company were examined.

- **Business valuation**

  The valuation of the joint venture company was calculated. Taking into account the company is making a loss, it would not be appropriate to use a valuation based on expected future dividends or a multiple of earnings.

- **Corporate governance**

  The role of non-executive directors in reaching a decision about offering to buy out the joint venture partner was discussed. The decision could have significant implications for the company and its shareholders. Non-executive directors should provide a counterbalance on the board to the influence of the executive directors and consider the best interests of the company as a whole and its shareholders.

- **Financing options**

  Alternative methods of financing the acquisition of the other 50% of the joint venture company were looked at. Taking into consideration the company is financing a long-term investment, short-term financing from overdrafts or other short-term borrowing facilities should not be used as these may have to be repaid before the investment is providing sufficient returns and cash flows.