

# Speed Noodle Limited

Inspiring **speed** and experience in one bowl



## Table of Contents

<b>Executive Summary</b> _____	<b>2</b>	Engaging in Business Line	
<b>Business Analysis</b> _____	<b>2</b>	Expansion into Delivery and Noodle	
<b>Remedies to Recent Incident</b> ____	<b>3</b>	Pack _____	<b>10</b>
Ethical Consideration _____	3	Enhancing Financial Stability ____	11
Immediate Solutions _____	4	Empowering Employee for	
Prevention to Similar Cases ____	4	Innovation in North America ____	12
<b>Current Financial Analysis</b> _____	<b>5</b>	<b>Implementation</b> _____	<b>13</b>
Profitability _____	5	Gantt Chart _____	12
Liquidity _____	6	Operational Risk Analysis ____	13
Return on Investment _____	6	Financial Risk Analysis _____	13
<b>Strategic Planning</b> _____	<b>6</b>	<b>Financial Projection in Upcoming</b>	
Introducing ERP Management		<b>5 Years</b> _____	<b>13</b>
System _____	7	Profitability: _____	13
Implementing Digital Transformation		Liquidity: _____	14
through E-commerce Solutions ____	8	Return on Investment _____	14
		<b>Appendices</b> _____	<b>14</b>

## Executive Summary

This report aims to settle the recent incidents happened in Speed Noodle Limited ('SNL') and tackle the facing challenges in different markets by providing solutions. *5E* is proposed to ensure business growth and tackle the facing problems while *PASE* is provided to address the recent incidents. The strategies can improve the internal management, enhance the profitability and liquidity of the company. With all the solutions, it is expected that SNL can have a better operational management and foster its business growth in future.

## Business Analysis

Speed Noodles Limited ('SNL') was founded in Hong Kong 39 years ago and was listed in Hong Kong Stock Exchange in 2001. It currently has 135 outlets in Hong Kong, 56 outlets in mainland China and 24 outlets in United States. Although the business is profitable, its net profit margin is decreasing due to factors such as keen competitions in different markets, lack of growth opportunities in United States and difficulties in finding new outlets in Hong Kong. SWOT<sup>12</sup> analysis is used to evaluate the internal and external factors. Meanwhile, the business is facing an internal crisis involving a complaint over the wage payments of a junior chef. If the crisis is not

### Strength

- Strong liquidity position
  - Allow sufficient capacity for new investments
- Healthy brand name
  - Access to a large customer base with strong brand awareness
- High employee satisfaction and retention rate
  - Allow smooth implementation of new strategies

### Weakness

- Poor cost & working capital and inventory management
  - Inefficient use of resources
- High risk-avoidance in operations
  - Lack of substantial new investments
- Difficult to search for new premises in Hong Kong
  - Limit business expansion through traditional channels

### Opportunities

- Substantial growth of e-commerce market<sup>1</sup>
  - Considerable growth in e-commerce catering market
- New customer needs emerged from the COVID pandemic
  - Opportunities to transform current business to increase competitiveness
- Considerable growth of the Mainland China catering industry market<sup>2</sup>

### Threat

- Unstable business environment
  - COVID and social unrest caused an economic downturn
- High materials and labour cost
  - Difficult to reduce operating costs
- Competitive catering market
  - Difficult to stand out from other competitors
- Increasing customer expectations for high quality of service

<sup>1</sup> Statista (n.d.) Retail e-commerce sales worldwide from 2014 to 2023. Retrieved from <https://www.statista.com/statistics/379046/worldwide-retail-e-commerce-sales/>.

<sup>2</sup> Fung Business Intelligence (2020) China's catering market: Key facts and trends. Retrieved from [https://www.fbicgroup.com/sites/default/files/QuickTake\\_Catering.pdf](https://www.fbicgroup.com/sites/default/files/QuickTake_Catering.pdf)

addressed properly, it could worsen the staff morale and challenges that the company is facing right now.

### Remedies to Recent Incident

*Overview:* The statutory minimum wage in Hong Kong was raised to HK\$37.50 on 1 May 2019. Lucy Lee, a junior chef from Corporate Catering unit, has inquired about the increase of HK\$3 wage per hour newly standardized by government. The managers stated that staffs in Corporate Catering would have their salary adjustments when the start-up business grows, namely later in 2020. Meanwhile, employees in other branches of SNL have already obtained the new statutory minimum wage. Lucy Lee complained and emailed CEO directly for this issue.

### Ethical Consideration

*Fairness* – Managers should enhance the fairness inside the company in terms of employees' benefit and remuneration. The employment policy should be consistent among workers. The company is responsible to ensure equal treatment of staff in different departments and business units.

*Trustworthiness* – SNL's previous press release promised that the company would contentiously exercise the statutory minimum wage for their employees. This incident was not complying to their commitment which might cause loss of employee's confidence.

*Legality* – Every execution of company policy should abide the law and align with the regulations. According minimum wage ordinance set by the Labour Department, the statutory minimum wage was revised to HK\$37.50 with effect from 1 May 2019.

Employers should renew the hour rate of employees regardless the business situation

of the company. Otherwise, it is considered as violating the regulations which might lead to legal consequences.

*Reputation and Morale* – Executive management tend to maintain good reputation of the company. The unfair treatment in employees' salary harmed the reputation of the SNL and demolished its leading role in workers' protection aspect. This incident also depressed the morale of employees.

This incident has brought into focus recently. It is crucial to solve this incident and make preventive action to avoid similar cases from happening. By implementing *PASE*, SNL can gain confidence from employees and restore its reputation.

### Immediate Solutions

*Adjusting Wage Payments and Providing Compensation:* SNL should investigate the current situation and find out branches or departments that have not revised the minimum hour rate. All staff's minimum wage has to be adjusted to HK\$37.50 immediately. The company should also compensate for unadjusted wage of employees in this incident. It should repay the previous loss for Lucy and her colleagues.

*Apologizing and Releasing Internal Announcement:* David should reply the email from Lucy on behalf of the company. The email should apologize for the mistakes and clearly state the follow up actions of this incidents. SNL should also release a public announcement for all staff and managers to clarify the employees' remuneration details.

### Prevention to Similar Cases

*Standardizing Employment Policy:* SNL should formulate a standardized employment policy for their staff in terms of minimum salary and their calculations, paid time off, insurance and retirement saving plan. Every staff would be covered in this policy

regardless company's business situation. The terms should be written in the employment contract which acts as a guarantee for both employers and employees. Managers and executives in every business unit are required to be aware of workers' employment policy, their implementations and amendments. This increases their loyalty towards the company and ensures employee benefit can be protected in the future.

**Establishing Internal Review System:** SNL should establish a well-developed review system for employees to raise their enquiries. This is an open channel for staff to make comments on their treatment and company policy. Their reflection posted in the system would be directed to relating managers by the Human Resource Department. Managers should acknowledge the situation and look through the facts before offering the solutions. Consultation meetings should be held to make sure enough communication among departments, managers and staff. This can reduce misunderstandings and prevent similar cases from happening.

### Current Financial Analysis

<u>Profitability</u>	<u>SNL 2018</u>	<u>SNL 2019</u>	<u>Growth rate</u>	<u>Industry Average</u>
Net Profit Margin	11.59%	7.88%	-32.01%	-6.0357%
Gross Profit Margin	18.54%	14.28%	-22.98%	49.84%
Return on Capital Employed	22.98%	17.34%	-24.54%	N/A

**Profitability:** The primary source of revenue of SNL is the earnings from catering services. The total revenue of SNL increased by 12%. However, with COGS increasing by 17.86% due to the increased factor costs and over-orders of food, this resulted in the 22.98% decrease of gross profit margin in the past two financial years. Other trends are the decrease in net profit ratio and return on capital employed from 2018 to 2019. Net profit ratio plummeted by 32.01%, and return on capital employed shrank by 24.54%. This indicates that SNL utilizes assets less efficiently and its operating expenses is

<sup>3</sup> AASTOCKS (n.d.) Industry Details – Services – Restaurant & Fast Food Shops <http://www.aastocks.com/EN/stocks/market/industry/sector-industry-details.aspx?industrySymbol=3022&t=4&hk=0&s=10&o=0&p=2>

significant. SNL is advised to exercise better control over food and consumable costs to improve profitability.

Liquidity	SNL 2018	SNL 2019	Growth rate	Industry Average <sup>3</sup>
Current Ratio	2.78	2.76	-0.72%	0.57
Liquid Ratio	2.27	2.02	-11.01%	0.96

**Liquidity:** The current ratio of liquidity is 2.76 which shows a strong liquidity position of the company compared to 0.57 in industry average. This indicates the company is able to pay for immediate cash and debts. The liquid ratio of SNL in 2019 is 2.02 while the industry average is 0.96, indicating a strong liquidity position of SNL enough to meet its short-term liabilities without resorting to the sale of inventories. Overall, It indicates that the company is in good financial health and is able to face short-term obligations.

Return on Investment	SNL 2018	SNL 2019	Growth rate	Industry Average <sup>3</sup>
Earnings per share (EPS)	102.99 cents	78.39 cents	-23.89%	9.71 cents
Dividend cover for ordinary shares	1.087	1.075	-1.04%	N/A

**Return on Investment:** The earnings per share (EPS) decreases from HK\$1.0299 in 2018 to HK\$0.7839 in 2019, which indicates that the business is contracting. Also, the dividend cover for ordinary shares decreases slightly from 1.087 times in 2018 to 1.075 times in 2019, it is a warning to SNL to reconsider its high dividend policy. SNL’s EPS is much higher than that of industry average and this dividend policy would reduce the net profit retained for future investment and thus deteriorate the sustainability of the company.

**Strategic Planning**

As the financial situation is not desirable, a long-term strategic plan *5E* should be implemented aiming for a 6% increase in from 2020 to 2023:

- |  |  |
|--|--|
| <ul style="list-style-type: none"> <li>Introducing ERP Management System</li> <li>Implementing Digital Transformation through E-commerce Solutions</li> <li>Engaging in Business Line Expansion into Delivery and Noodle Pack</li> <li>Enhancing Financial Stability</li> <li>Empowering Employee for Innovation in North America</li> </ul> | <ul style="list-style-type: none"> <li>Improve operational efficiency</li> <li>Increase competitiveness and attract new customers</li> <li>Explore new customer segments</li> <li>Safeguard long term profits</li> <li>Revamp stagnant operations</li> </ul> |
|--|--|

## Introducing ERP Management System

*Problem:* SNL has an ineffective inventory management that leads to over-ordered food from suppliers and over-prepared food for sell at fast food outlets. Both problems contribute to a higher food and consumable cost, thus reducing net profit. Also, SNL lacks a systematic book-keeping practice that also worsen the efficiency of accounting management. With the below solution, it is estimated that 10% of the inventories can be saved by 2022.

*Implementing ERP System:* Enterprise resource planning (ERP) system<sup>4</sup> is designed to integrate all resources planning applications of SNL, into a shared and centralized source database. It is suggested that SNL pay a monthly or annual subscription fee for which the vendor maintains and host a third-party data server. The outsourcing can help save the cost of hiring a group of IT specialists in maintaining the servers. There are different functions of an ERP system, in which “inventory management” and “accounting and finance” are more important to SNL to alleviate the existing problems.

*Inventory Management:* The ERP system allows SNL to monitor materials and supplies across all outlets. Through inventory control, SNL can keep track of the expiry dates of the food material so that catering materials are delivered and used at the best timing. Moreover, with the customized inventory optimization function, the ERP system can analyse the stored sales data and customer behaviours, hence enabling statistical demand forecasting. SNL could make accurate sales predictions for the upcoming periods and devise ordering plans accordingly. The system would also support automated stock replenishment, predicting the sold-out period of materials and

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<sup>4</sup> Better Buys (2020) How Much Does an ERP System Cost? 2020 Pricing Guide. Retrieved from <https://www.betterbuys.com/erp/erp-pricing-guide/>

purchasing the supplies promptly based on the estimation. It eliminates the need of stocking up large amounts of materials at the central distribution centres. Overall, it would reduce over-ordering of supplies, lower inventory storage cost and data processing cost for data analysis.

**Account and Finance:** ERP system provides book-keeping automation which can enhance efficiency and reduce errors. The company can configure balance confirmations, account statements, and other notifications to suit the correspondence requirements. There are balance lists, journals, balance audit trails and other evaluations available for documenting transactions in accounts receivable as well account payable. As the type of invoice or accounting treatment are relatively consistent in SNL, the accounting function provided by the ERP system is suitable for streamlining SNL's operation.

### Implementing Digital Transformation through E-commerce Solutions

**Problem:** COVID-19 significantly limited the physical interaction with customers at catering outlets. With around 23% increase in the number of Hong Kong shoppers purchasing food-related products online after the COVID outbreak<sup>5</sup>, there is a need for SNL to maintain customer engagement digitally. Besides, SNL experienced difficulties in finding suitable premises for expansion in Hong Kong, which deterred business growth. Aiming to engage customers online and increase market penetration, it is suggested that SNL introduce digital transformation strategies. In the long run, it would raise competitiveness of SNL in established new business extensions in districts yet to be expanded.

<sup>5</sup> Statista (n.d.) Number of online shoppers before and after coronavirus (COVID-19) outbreak in Hong Kong from January to February in 2019 compared to 2020. Retrieved from <https://www.statista.com/statistics/1108862/hong-kong-number-of-online-shoppers-after-covid-19-outbreak-by-channel/>



*Introducing SNL Membership Application:* SNL Membership Application is a mobile application for registered members to enjoy exclusive benefits and services in Hong Kong and Mainland China. The app introduces mobile ordering function for dine-in, self-pickup and take-aways at both Speed Noodle Bar and Hokkien Food House. Partnership with e-payment companies would support in-app payments for better customer experience. A membership privilege scheme, should also be launched. Members will be eligible for discounts and enjoy special offers redeemed with member spending points. SNL should outsource the application development and promote customer installation through member referral schemes. The new service could raise operational efficiency and reach customers from areas without SNL outlets, thus projected contribute to a 10% increase in revenue by 2020.

*Expanding Online Presence Through Website and Social Media Promotion:*

It is proposed that SNL outsource the creation of an e-commerce website, mainly to promote SNL Corporate Catering and to facilitate online corporate event orders via online payments in Hong Kong and China. Coupled with existing corporate marketing strategies, SNL Corporate Catering is estimated to achieve a 3% year-on-year growth in revenue. SNL should also create two Facebook pages for Speed Noodle Bar and Hokkien Food House to reinforce their brands and to advertise promotions for its non-corporate catering. By analysing marketing data gathered from SNL Membership Application, website and Facebook page, SNL could formulate data-driven advertising approaches and product strategies in the future. Digital marketing could also lower traditional marketing costs by 10% after implementation.

## Engaging in Business Line Expansion into Delivery and Noodle Pack

Current Situation: It is known that the profit of the year has decreased 30%, which is not optimistic. The pandemic and high renting costs largely decreased the customer flow which brought a decrease of sales revenue. More business line and products should be expanded in order to compensate the deterred expansion of business branches.

Moreover, SNL can also grasp emerging business opportunities under the impact of COVID including significant increase in demand of delivery services and home cooking kits and ingredients<sup>6</sup>.

*Partnering with delivery companies:* In the past, SNL mainly focuses on the dine in and in-house delivery services. It is suggested that sales from delivery be enhanced by partnering 1-2 big brands delivery companies, Foodpanda and Deliveroo in Hong Kong and Meituan in China. SNL could provide a limited number food choices in the beginning phase of the operation change, and slowly diversify the menu depending on the operation progress. On top of the registration fee, orders taken from delivery companies will subject to a 20%-30% commission on average (15%-20% or Foodpanda and 20% from Meituan). SNL should raise the selling price of meals sold on delivery platforms by 5-10% to compensate increased delivery cost. It is believed that the sales from delivery orders will boost SNL revenue by 3%.

*Launching brand new noodle pack:* It is proposed that SNL take advantage of its established brand name in the catering market and its expertise in noodle making to launch a noodle pack product as a new business line in Hong Kong and China. The noodle pack is a cup-noodle sized package with a heating pack included. The new

<sup>6</sup> Statista (n.d.) Coronavirus (COVID-19) impact on delivery service usage in China in 2020, by service type. Retrieved from <https://www.statista.com/statistics/1112719/china-increase-in-delivery-services-due-to-covid-19-by-service-type/>

product will be available in SNL physical outlets, supermarkets, grocery stores etc. Moreover, the noodle pack produced at the same quality as dine-in noodle products can serve as a substitute for take-away noodle orders from SNL. Customers will be given a noodle pack in replacement of take-away noodles cooked at SNL outlets for delivery, which often has unstable product quality due to various external factors during the delivery process. The production of the noodle packs will be outsourced to food manufacturers considering the large upfront machinery costs for in-house production, but SNL should closely monitor the quality of products produced. The brand new product line could potentially bring 4% additional revenue to SNL by 2020.

### Enhancing Financial Stability

*Problem:* Currently, suppliers in Hong Kong and mainland China of SNL are requesting for earlier invoice payments. Also, SNL does not have a systematic way in collecting payments from credit customers. These problems indicate that the company lacks clear guidelines in handling the account payables and receivables, especially for credit policies which leads to an inefficient accounting management and reduces the liquidity.

*Initiate Policy of Prompt Payment:* The current liquid ratio of SNL is 2.78 which is higher than that of the average catering industry at around 1.5. This shows that SNL has an advantageous liquid position and can easily settle current liabilities with its current assets. Therefore, SNL is capable of solving the current problems by establishing stricter credit policies and settle more account payables with payments collected from account receivables. For example, the current credit period of 30 - 45 days should be restricted to 15-30 days to achieve a shorter payment period and lowering of bad debts. For orders with suppliers, SNL should also pay suppliers earlier and negotiate for a

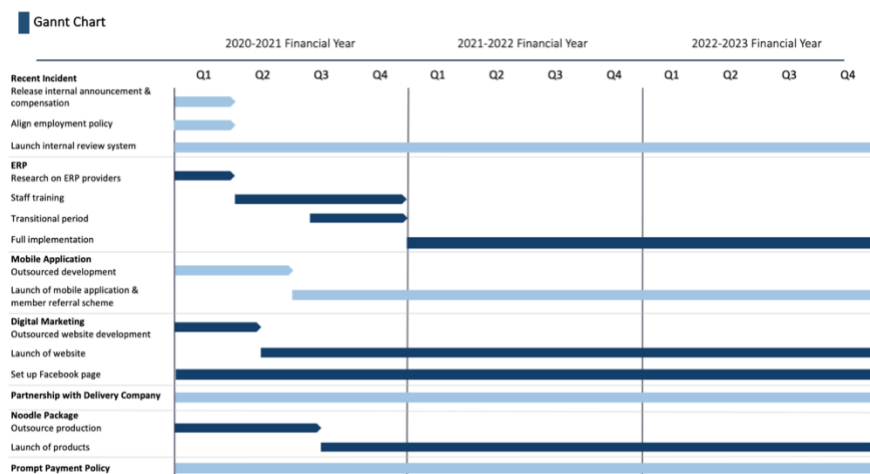
cash discount. By implementing the solution, it helps safeguard SNL’s high current ratio. Moreover, well managed account payable practices can help maintain good and stable relationship with suppliers, hence increasing SNL’s business confidence and creditability. Meanwhile, by having an effective management of account receivables, not only can it reduce bad debts that contributes to SNL’s lowering net profit, but also saves time and expenses spent on collecting overdue payment.

**Empowering Employee for Innovation in North America**

*Problem:* There has been limited growth in revenue in SNL’s North America branch in which the Board do not see opportunities in business growth in the foreseeable future. The North America branch faces challenges with fierce market competition in price and market share.

*Utilizing local talents for product reform:* It is suggested for SNL to raise the involvement of North American employees in strategic planning. By utilizing local talents’ experience and familiarity in the market, SNL can design more suitable product customization and innovation and readjust resources allocation in the North America branch accordingly. Superior product customization compared to other brands could increase competitiveness in the long run.

**Implementation**



Operational Risk Analysis		
	Risk Scenario	Contingency
Introducing ERP Management System	Some staff complains about switching to the ERP system	Team leader will approach staff to understand their concerns. Their opinions will be integrated to develop a more comprehensive staff training and support. Staff will also be encouraged to voice opinion through the internal review system.
Introducing SNL Mobile Application	Customers are not motivated to use the SNL mobile app	Hire store ambassadors to promote and teach customers to use the app e.g. redeem discounts from the app. Advertise the launch of app on Facebook highlighting exclusive discounts for members and the member referral scheme.
	Customer personal information in the mobile application database may be stolen by hackers, such as payment account details	Suspend the app service immediately. Inform the affected members and report the incident to the authorities for assistance. Hire IT professionals for system repair and upgrade the security level.
	Mobile app & website outsourced cannot be delivered according to the timeline	Temporarily shift primary promotional channel of marketing strategies to SNL Facebook page and advertisements.
Expanding Online Presence	PR crisis due to controversial social media content	Immediately pull down the post and release a public statement for clarification if necessary. Establish a PR team responsible for reviewing future promotional campaigns before release and gatekeep SNL branding.
Partnering with delivery companies	Negative influence on brand name due to under-quality services of delivery company	Report incidents to delivery company immediately. Negotiate for better future cooperation arrangements and compensation made to customers if necessary.
Launching brand new noodle pack	Risk of food safety in outsourced noodle pack production	Establish a quality control system to check the hygiene conditions regularly. Ensure the noodles are produced in a bacteria-free environment and prevent contamination of food ingredients. Signing contracts to prevent any safety problems.
	Customers not attracted to the noodle pack perceiving it as another instant noodle product	Brand and promote the product as a pre-packed version of SNL's restaurant quality noodles. Emphasize on the fresh production process aligned with the standards of dine-in noodles with little addition of preservatives.
Initiate Policy of Prompt Payment	Customers or suppliers are unwilling to follow prompt payment policy	Negotiate a transitional period of payment policies for a smoother implementation. Explain the benefits of following the policy for both parties. Incentivize customers or suppliers with discounts or premium in price of orders.

**Financial Risk Analysis**

The profitability and liquidity of the firm is strong to sustain and expand the operation.

The firm is facing increase of production costs and an increasing of current ratio currently. SNL is holding too much cash that can be utilised in other areas. As to utilise the resources efficiently, it is suggested that cash in hand could be used to improve equipment, expand operation, and increase in holding of both short term and long term investment.

**Financial Projection in Upcoming 5 Years**

*Profitability:* The original primary source of revenue would be dining and catering service. After implementing the strategies, the revenue of the company is expected to increase due to the revenue driver of new business line delivery service and meal pack and new promotions of the branding. It is expected that the net profit ratio would increase from 11.59% in 2018 to 14.07% in 2022. The operating expenses would be

Executive Summary & Business Analysis

Remedies to Recent Incident

Current Financial Analysis

Strategic Planning

Implementation

Financial Projection in Upcoming 5 Years

increased due to new production line and implementation of system but would be decreased due to effective use of ERP system and long-term marketing cost.

**Liquidity:** the current ratio and liquid ratio would increase to 0.26:1 and 0.147:1

respectively by 2022. The escalated ratios are mainly due to the surge of cash because of the cash generate from operating activities and hence slower increase in current liability.

**Returns on Investment:** The earnings per share would increase from HK\$1.03 to HK\$1.89 by 2022.

## Appendices

### Appendix 1: Statement Showing Sales Revenue

	Assumption	2018	2019	2020	2021	2022
		HKD \$'000				
Revenue from SNL	Growth 2020: 0%, 2021: 17%, 2022 17%	2,476,290	2,781,000	2,781,000	3,253,770	3,806,910
Revenue from Corporate Catering Department	Year-on-year growth : 3%	<u>188,790</u>	<u>203,900</u>	<u>210,017</u>	<u>216,318</u>	<u>222,807</u>
<b>Total Sales Revenue</b>		2,665,080	2,984,900	2,991,017	3,470,088	4,029,717

### Appendix 2: Statement Showing Expenses by Nature

	Assumption	2018	2019	2020	2021	2022
		HKD \$'000				
Cost of food and consumables used	Cost saving from the implementation of ERP system: 2020: 5% ; 2021: 8% ; 2022 onwards 10%	895,467	1,061,624	1,008,542	1,214,530	1,410,400
Depreciation	Assume 10% increase	104,345	120,280	124,926	132,926	140,926
Operating lease rentals in respect of rented premises		266,532	313,415	344,757	379,232	417,155
Employee cost	Assume 500 people increased salary to \$37.5	588,983	715,791	719,731	720,591	720,591
Electricity, water and gas cost	Assume 5% increase	143,935	163,448	171,620	180,201	189,211
Advertising and promotion expenses	Website development upfront cost: \$150k, annual maintenance cost: \$38k, digital advertising cost: \$100k	35,840	38,654	38,984	34,927	34,927
Delivery Service	Registration fee \$10k for 2 platforms, commission fee	-	-	50	35	40
Meal Pack	Cost of outsourcing to other party for production and design			20,000	16,000	18,000
Annual ERP subscription fee	\$1k per user per month, 200 users	-	-	2,400	2,400	2,400
Provision for impairment of trade receivables	Less allowance for doubtful debt after a better management of account receivable	-	150	100	50	30
Other expense	Assume 12% increase (including discount allowed)	<u>272,716</u>	<u>305,379</u>	<u>341,954</u>	<u>382,910</u>	<u>428,770</u>
<b>Total Expense</b>		2,307,818	2,718,741	2,773,064	3,063,802	3,362,451
Representing						
Cost of sales		2,170,966	2,558,653	2,591,368	2,854,442	3,121,216
Administrative expense	assume 15% increase	<u>136,852</u>	<u>157,688</u>	<u>181,696</u>	<u>209,360</u>	<u>241,235</u>
		2,307,818	2,718,741	2,773,064	3,063,802	3,362,451

## Appendix 3: Statement of Profit or Loss

	Assumption	2018	2019	2020	2021	2022
		HKD \$'000				
<b>Sales Revenue</b>	See Appendix 1	2,665,080	2,984,900	2,991,017	3,470,088	4,029,717
Cost of sales		2,170,966	2,558,653	2,591,368	2,854,442	3,121,216
Gross Profit		494,114	426,247	399,649	615,646	908,501
Administrative expense		136,852	157,688	181,696	209,360	241,235
Operating Profit		357,262	268,559	217,953	406,286	667,266
Finance income and net income from legal settlement	Assume stable amount in the future	<u>11,857</u>	<u>12,926</u>	<u>11,800</u>	<u>11,800</u>	<u>11,800</u>
<b>Profit before income tax</b>		369,119	281,485	229,753	418,086	679,066
Income tax expense	Tax rate: 16.5%	<u>60,905</u>	<u>46,445</u>	<u>37,909</u>	<u>68,984</u>	<u>112,046</u>
<b>Profit for the year</b>		308,214	235,040	191,844	349,102	567,020

## Appendix 4: Statement of Financial Position

	Assumption	2018	2019	2020	2021	2022
		HKD \$'000				
Non-current assets:						
Property, plant and equipment	Assume constant year-on-year growth	1,135,284	1,169,261	1,249,261	1,329,261	1,409,261
Current assets:						
Inventories		82,677	97,131	92,274	99,324	104,588
Trade and other receivables	Assume 15% after establishing credit policy	36,433	43,114	31,503	32,448	33,421
prepayments and deposits	Assume \$50,000k in the future	54,865	49,620	50,000	50,000	50,000
Short-term investments	Assume 5% annual growth	-	43,084	45,238	47,499	49,873
Cash and cash equivalents		<u>561,144</u>	<u>478,878</u>	<u>524,100</u>	<u>618,635</u>	<u>755,776</u>
<b>Total assets</b>		1,870,403	1,881,088	1,992,376	2,177,167	2,402,919
Equity:						
Share capital and non-distributable reserves		491,828	491,828	491,828	491,828	491,828
Retained earnings		<u>1,114,759</u>	<u>1,131,353</u>	<u>1,291,294</u>	<u>1,543,219</u>	<u>2,054,512</u>
<b>Total equity</b>		1,606,587	1,623,181	1,783,122	2,035,047	2,546,340
Current Liabilities:						
Trade payables	Assume 6% of cost of good & meal pack after establishing credit policy	70,635	69,262	61,713	73,832	85,704
Other creditors and accrued liabilities	Assume 5% annual growth	171,008	174,125	182,831	191,973	201,571
Current income tax liabilities	Assume 35% of the tax expense	22,173	14,520	13,268	24,144	39,216
<b>Total liabilities</b>		263,816	257,907	257,812	289,949	326,491
<b>Total equity and liabilities</b>		1,870,403	1,881,088	2,023,904	2,299,238	2,837,843
Number of shares in issue		300 million	300 million	300 million	300 million	300 million

## Appendix 5: Statement of Cash

	2019	2020	2021	2022
	HKD \$'000			
Cash flows from operating activities:				
Profit before tax	281,485	229,753	418,086	679,066
Depreciation	120,280	124,926	132,926	140,926
(Increase) / decrease in receivables	-6,681	11,611	-945	-973
(Increase) / decrease in inventory	-14,454	4,857	-7,050	-5,264
Increase / (decrease) in payables	1,373	8,149	-12,239	-11,812
(Increase) / decrease in prepayment	5,245	0	0	0
Increase / (decrease) in other creditors and accrued liabilities	-3,117	-8,706	-9,142	-9,598
(Increase) / decrease in short-term investment	-43,084	-2,154	-2,261	-2,374
<b>Cash generated from operations</b>	341,047	368,436	519,375	789,971
Income tax paid	<u>31,798</u>	<u>24,641</u>	<u>44,840</u>	<u>72,830</u>
<b>Net cash from operating activities</b>	309,249	343,795	474,535	717,141
Cash flow from investing activities:				
Acquisition and Proceeds of property, plant and equipment	<u>-33,977</u>	<u>-80,000</u>	<u>-80,000</u>	<u>-80,000</u>
<b>Net cash used in investing activities</b>	-33,977	-80,000	-80,000	-80,000
Cash flows from financing activities:				
Dividend paid	218,573	218,573	300,000	500,000
Increase/(decrease) in borrowings	0	0	0	0
<b>Net cash used from financing activities</b>	-218,573	-218,573	-300,000	-500,000
Net increase / (decrease) in cash and cash equivalents	-82,266	45,222	94,535	137,141
Cash and cash equivalents at 1 January	561,144	478,878	524,100	618,635
Cash and cash equivalents at 31 December	478,878	524,100	618,635	755,776

## Appendix 6: Financial Ratios

	2018	2019	2020	2021	2022
<b>Profitability</b>					
Net Profit Margin	11.59%	7.88%	6.41%	10.06%	14.07%
Gross Profit Margin	18.54%	14.28%	13.36%	17.74%	22.55%
Return on Capital Employed	22.98%	17.34%	12.88%	20.54%	26.67%
<b>Liquidity</b>					
Current Ratio	2.78	2.76	2.88	2.92	3.04
Liquidity Ratio	2.27	2.02	2.16	2.25	2.42
<b>Return on Investment</b>					
Earnings per Share	102.99 cents	78.39 cents	63.95 cents	116.37 cents	189.01 cents
Dividend Cover for Ordinary Shares	1.087 times	1.075 times	-	-	-