

**2015 QP Case Analysis Competition (HK)**

**Best Written Report**



## Speed Eater Limited

To become leader in the eater industry



## Table of Contents

---

<b>Part I. Executive Summary</b>	<b>P.1</b>
<b>Part II. Company Profile</b>	<b>P.2</b>
<b>Part III. Evaluation of Existing Strategies</b>	<b>P.2 – P.7</b>
1. Investing in “Cha Chaan Teng” Business	P.3 – P.4
2. Franchising US coffee chain store	P.5 – P.7
<b>Part IV. Proposed Strategy</b>	<b>P.7 – P.12</b>
1. Comparison with existing strategies	P.8
2. Details of proposed strategy	P.8 – P.11
3. Financial implications of proposed strategy	P.12
<b>Part V. Funding Plan</b>	<b>P.12</b>
<b>Part VI. Implementation Timeline</b>	<b>P.13</b>
<b>Part VII. Ethical Conundrum</b>	<b>P.13 – P.14</b>
<b>Part VIII. Conclusion</b>	<b>P.15</b>
<b>Part IX. Appendices</b>	<b>P.15 – P.20</b>

## Part I. Executive Summary

---

This report aims to sustain SEL's long-term revenue growth, achieve higher profit margin and improve corporate culture, by proposing a strategy of expanding SEL Corporate Catering Unit ("CCU") and solving the ethical conundrum within the firm.

The report compares the proposed strategy with the ones identified by the Investment Strategy Group, and justifies how it better suits SEL's development. Research have been conducted on several focus. Including 1) analysis of operating environment of "Cha Chuan Teng" in China, 2) analysis of coffee chain shop market in Hong Kong, 3) analysis of attractiveness of corporate catering industry and 4) corporate catering business data collection. Besides, different frameworks and models have been applied to facilitate analysis and evaluation.

The report findings indicate that the two strategies identified by the Investment Strategy Group have weaknesses in terms of cost, operational risk and market potential. Comparisons with the proposed strategy based on the aforementioned aspect have been conducted.

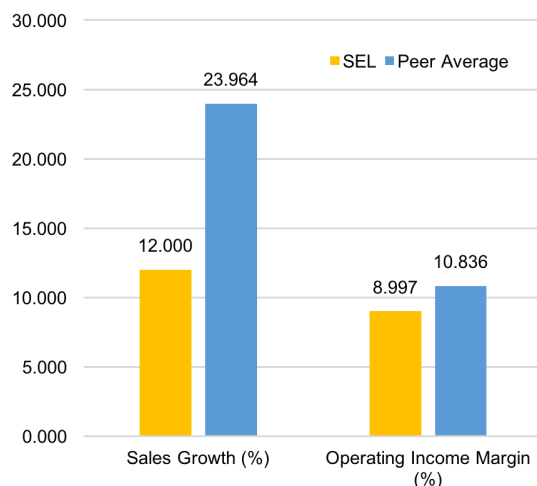
It is recommended that SEL should implement the proposed strategy to tap into the potentially huge market of Corporate Catering business in China, financed by the issuance of corporate bond to maintain a healthy level of liquidity. This can ensure a sustainable long-term growth for the firm while maintaining a high level of profit margin.



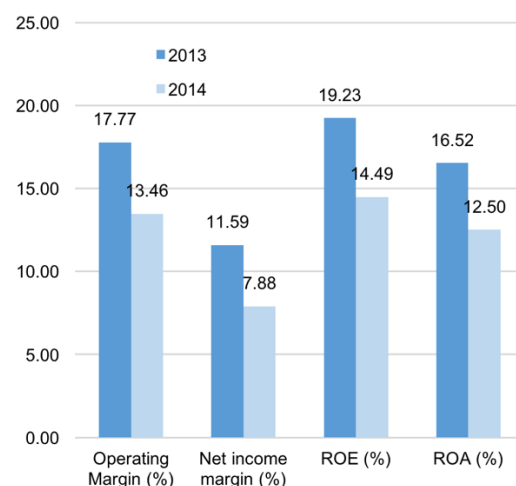
## Part II. Company Profile

Founded in 1978, Speed Eater Limited (SEL) is a Hong Kong-based catering corporation and restaurant chain with presence in both Hong Kong and the mainland China. By offering noodles as a cheap and cheerful fast food staple, SEL has been operating two chains of fast food outlets under the name of Speed Eater Bars (SEB) and Hokkien Food House (HFH) restaurants, with a total of 135 outlets in Hong Kong and 56 outlets in China. SEL also started to engage in the Corporate Catering Business which supplied the Hong Kong corporate market with in-house catering. Throughout these years, SEL has received recognition and satisfaction from customers and staff for its reputation on food and workplace safety. However, the business has been slowing down (**Figure 1<sup>1</sup> & 2**) in recent years as a result of the strong competitions in retail catering and the shortage of retail outlets space in Hong Kong.

**Figure 1. SEL & Industry Peers Comparison**



**Figure 2. SEL Y-o-Y Profitability Ratios**



## Part III. Evaluation of Existing Strategies

The Investment Strategy Group has identified and proposed two strategies to the top management of SEL. We have evaluated the two strategies from various angles with

<sup>1</sup> Reference: Appendix 12 – Comparables of SEL

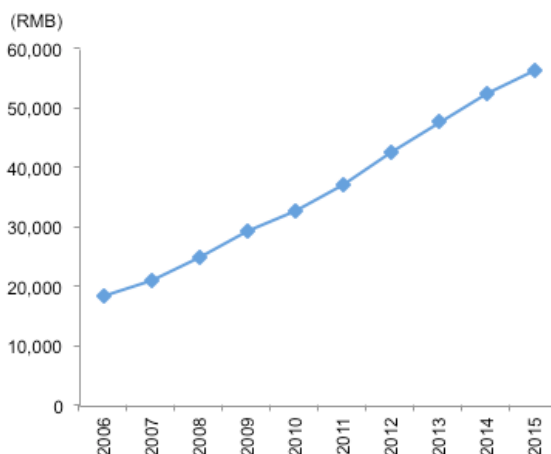
a projected financial scenario for each of the strategy, and determined that a new strategy would serve the purpose better. This part provides a detailed analysis of strategies 1) Diversify business by investing in “Cha Chaan Teng” in China and 2) Be the franchisee of a renowned U.S. coffee shop brand.

## 1. Diversify business by investing in “Cha Chaan Teng”

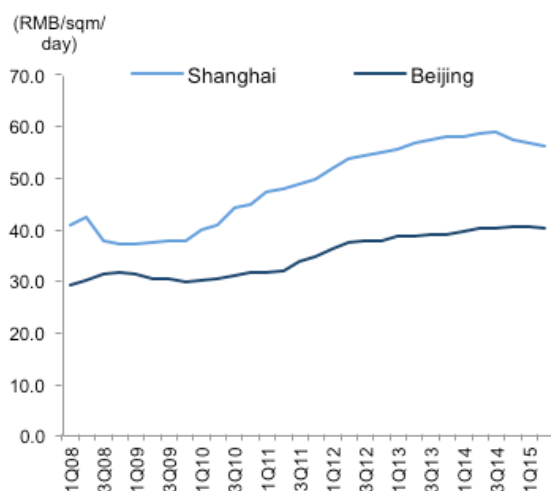
### 1.1 Weaknesses in strategy

*Tighter profit margins arising from upward pressure on costs* – Historical data from the past ten years shows ever increasing costs for both labour and retail renting in China’s major cities. YoY average growth yielded a CAGR of 11.9% and 4.2% for wages and rental space respectively (**Figure 3 & 4**). Thus, aggressive expansion into the PRC food retail industry will see a greater impact on capital expenditures as well as fixed costs due to rising rental prices and labour costs. For SEL, this means that profit margins will be squeezed even tighter, further nullifying the prospects for future growth potential if SEL were to diversify and expand into HK style Cha Chaan Tengs.

**Figure 3. China Average Annual Wage**



**Figure 4. G/F Retail Store Rental in Major Cities**



*Unfavorable business conditions give rise to operational difficulties* – Increasing number of food scandals (**Appendix 1**) have put tighter restrictions on China’s

licensing and regulatory requirements in the food and beverage industry. As such, HK style Cha Chaan Teng startups must go through rigorous licensing processes. We thus estimate an increase in operating expenses and food safety regulation. In addition, expansion into diversified geographical regions in China will also amplify risks of poor quality control over supply chain of raw materials, increasing the operational risks of the business.

## 1.2 Financial Implications of Scenario

We analyzed SEL's projected cash flows over a 5-year horizon using discounted cash flow analysis for both scenarios with a WACC of 11.3% (**Figure 5**): one under SEL's current operations as a fast-food chain operator, and the other if SEL decides to expand its operations to include HK style Cha Chaan Tengs. Aforementioned increases in capex outweigh the growth in sales revenue, resulting in a lower Net Present Value (NPV) of HKD\$688 million if SEL invests in Cha Chaan Tengs. These results indicate that there are better alternative investment strategies for SEL.

**Figure 5. DCF Analysis of Strategy 1: Expansion into Cha Chaan Tengs**

<b>Strategy 1 DCF: Expansion into Cha Chaan Tengs</b>		<b>Projection Period</b>				
<i>Calendar Year ended December 31st (in thousands of HKD)</i>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	
<b>EBIAT</b>	386,869.6	421,833.5	459,131.1	494,957.5	528,519.8	
Plus: D&A	27,699.9	30,192.9	28,532.3	26,168.2	23,115.2	
Less: Increase in Capex	(276,998.7)	(301,928.6)	(285,322.5)	(261,681.5)	(231,152.0)	
Less: Increase in NWC	(47,349.9)	(6,507.7)	(6,305.2)	(5,958.5)	(5,464.8)	
<b>Unlevered FCF</b>	<b>90,220.9</b>	<b>143,590.0</b>	<b>196,035.6</b>	<b>253,485.7</b>	<b>315,018.3</b>	
<b>PV of Unlevered FCF</b>	<b>81,048.0</b>	<b>115,876.4</b>	<b>142,115.4</b>	<b>165,080.2</b>	<b>184,294.6</b>	
<b>NPV of Unlevered FCF</b>	<b>\$ 688,414.6</b>					
<b>Current Operations DCF</b>		<b>Projection Period</b>				
<i>Calendar Year ended December 31st (in thousands of HKD)</i>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	
<b>EBIAT</b>	300,831.5	327,997.8	365,586.3	391,274.2	415,010.8	
Plus: D&A	90,293.2	98,419.6	96,630.2	103,394.3	109,597.9	
Less: Increase in Capex	(164,169.5)	(178,944.8)	(193,260.3)	(206,788.6)	(219,195.9)	
Less: Increase in NWC	(43,609.8)	(6,171.1)	(5,979.1)	(5,650.3)	(5,182.1)	
<b>Unlevered FCF</b>	<b>183,345.4</b>	<b>241,301.5</b>	<b>262,977.0</b>	<b>282,229.7</b>	<b>300,230.8</b>	
<b>PV of Unlevered FCF</b>	<b>164,704.5</b>	<b>194,729.1</b>	<b>190,644.3</b>	<b>183,799.4</b>	<b>175,643.5</b>	
<b>NPV of Unlevered FCF</b>	<b>\$ 909,520.9</b>					

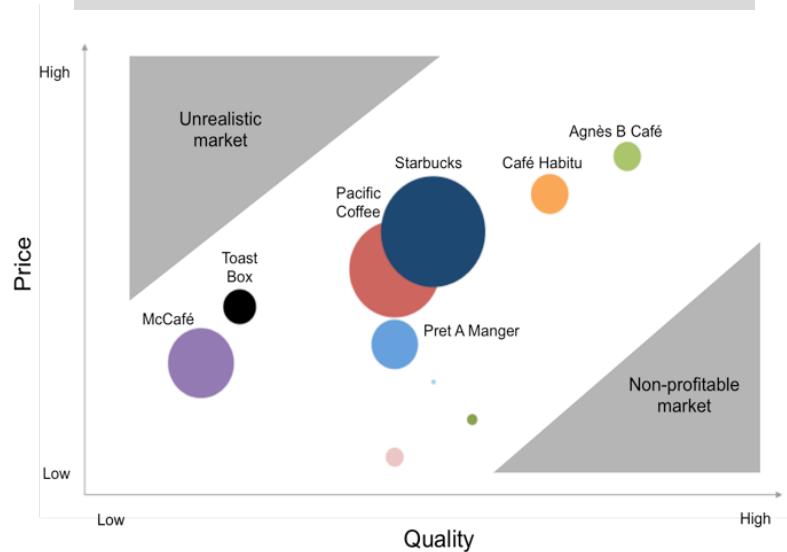
## 2. Be the franchise of a renowned U.S. coffee shop brand

### 2.1 Weaknesses in strategy

#### *Limited seizable market share* –

Currently, there are a few coffee shop chains dominating in the Hong Kong market. They are well-established and well-received by their target customers, and had build strong customer loyalties and relationships to their brand.

**Figure 6. HK Chained Coffee Positioning Map**

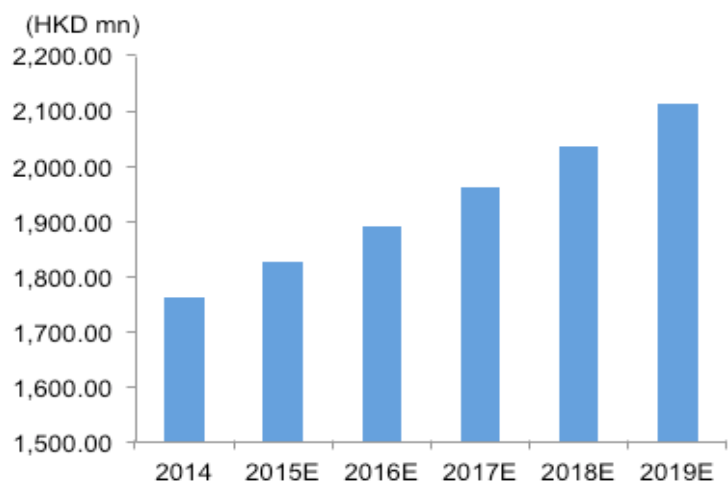


Therefore, there is no observable market gap for SEL to import another coffee shop chain into the current market in Hong Kong within the realistic and profitable territory, when most of its competitors have already occupied a sizeable share in the coffee shop market (**Figure 6**).

#### *Low market growth potential* –

The chained coffee shop market in Hong Kong is relatively saturated and is predicted to have less than 4% y-o-y growth (**figure 7**) in the coming years. Market penetration of coffee shop is relatively high and the potential for growth is not particularly

**Figure 7. HK Chained Coffee Shop Market Size**



significant. Investing substantially into the coffee shop chain business will not be able

to provide sustainable growth to the company and may result in lower projected sales growth than anticipated, given the already-fierce competition in the market.

*Associated costs from franchise agreement increase business risks* – Venturing into unchartered territory of coffee shop via franchising incurs substantial costs in franchising costs as well as SG&A expenses. While in some cases the royalties charged are at a percentage of revenue, in other they are charged at a fixed amount. Moreover, most franchisors require the franchisee to contribute a certain percentage of the marketing cost. These costs increase the fixed cost for operation and hence the business risk of SEL.

*High fixed cost drives down profitability* - According to the Rating and Valuation Department; the shop rental has increased by more than 70% in Hong Kong over the last ten years (**Appendix 2**). Given this trend, should SEL opens coffee shops and further penetrate into the retail food industry, the high rental cost will drive down the profitability of the company. With the high fixed costs that ties with coffee shop operations, existing well-established coffee shops can leverage on the economies of scale based on their high volume of sales to reduce the average costs. It would incur significant costs for SEL to enter before it could expand, making it less competitive than its peers.

## 2.2 Financial Implications of Scenario

If SEL decides to purchase a franchise in coffee shops and diversify its operations, using the same DCF analysis over a 5-year horizon (**Figure 8**), the computed NPV for the project is estimated at HKD\$844 million, which is lower than that of SEL's current

operations with an NPV of HKD\$909.5 million. Again, SEL would be better off investing in a strategy with a higher NPV.

**Figure 8. DCF Analysis of Strategy 2: Coffee Shop Franchising**

Strategy 2: Coffee shop franchise		Projection Period				
Calendar Year ended December 31st (in thousands of HKD)	2015	2016	2017	2018	2019	
<b>EBIAT</b>	277,149.2	322,002.9	374,910.8	409,465.6	432,807.7	
Plus: D&A	117,008.1	109,319.0	98,387.1	105,274.2	111,590.6	
Less: Increase in Capex	(234,016.2)	(218,638.0)	(196,774.2)	(210,548.4)	(223,181.3)	
Less: Increase in NWC	(45,878.8)	(6,375.3)	(6,177.0)	(5,837.2)	(5,353.6)	
<b>Unlevered FCF</b>	<b>114,262.3</b>	<b>206,308.6</b>	<b>270,346.8</b>	<b>298,354.2</b>	<b>315,863.5</b>	
<b>PV of Unlevered FCF</b>	<b>102,645.1</b>	<b>166,490.0</b>	<b>195,987.0</b>	<b>194,300.4</b>	<b>184,789.1</b>	
<b>NPV of Unlevered FCF</b>	<b>\$ 844,211.6</b>					

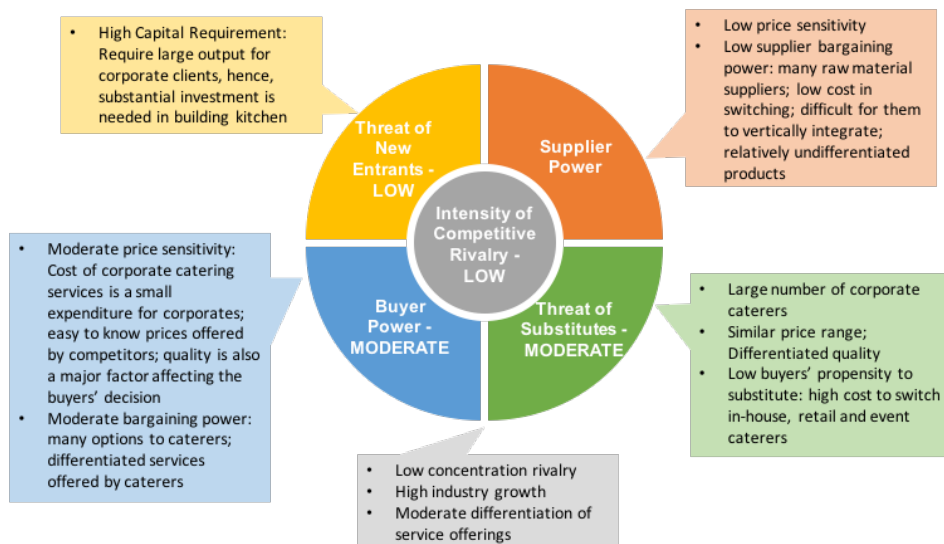
  

Current Operations DCF		Projection Period				
Calendar Year ended December 31st (in thousands of HKD)	2015	2016	2017	2018	2019	
<b>EBIAT</b>	300,831.5	327,997.8	365,586.3	391,274.2	415,010.8	
Plus: D&A	90,293.2	98,419.6	96,630.2	103,394.3	109,597.9	
Less: Increase in Capex	(164,169.5)	(178,944.8)	(193,260.3)	(206,788.6)	(219,195.9)	
Less: Increase in NWC	(43,609.8)	(6,171.1)	(5,979.1)	(5,650.3)	(5,182.1)	
<b>Unlevered FCF</b>	<b>183,345.4</b>	<b>241,301.5</b>	<b>262,977.0</b>	<b>282,229.7</b>	<b>300,230.8</b>	
<b>PV of Unlevered FCF</b>	<b>164,704.5</b>	<b>194,729.1</b>	<b>190,644.3</b>	<b>183,799.4</b>	<b>175,643.5</b>	
<b>NPV of Unlevered FCF</b>	<b>\$ 909,520.9</b>					

**Part IV. Proposed Strategies: Expansion of SEL Corporate Catering Unit**

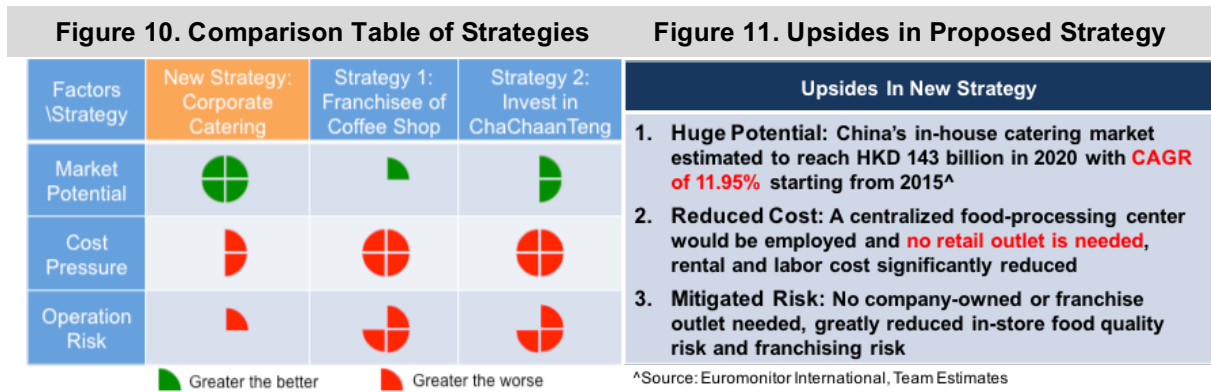
It is established that the aforementioned strategies are not the best fit for SEL’s future development, by applying the SWOT analysis (**Appendix 7**) and Porter’s Five Forces Analysis (**Figure 9**), we propose that SEL should adopt another strategy: **Expanding the existing Corporate Catering Unit (“CCU”).**

**Figure 9. Porter’s Five Forces Analysis of Corporate Catering Industry**



## 1. Comparison with existing strategies

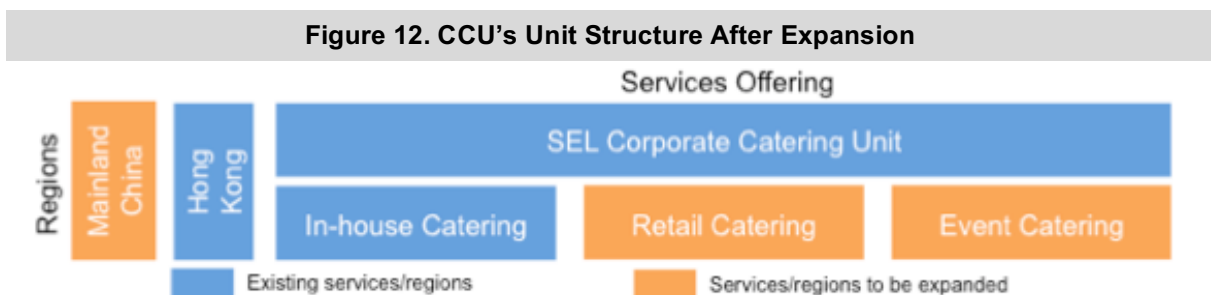
The proposed strategy is compared to the existing two strategies. In **figure 10 & 11**, benefits of our proposed strategy are shown as compared to the other two.



Among the upsides in the proposed strategy, market potential of China would be the greatest highlight. SEL's expansion in its corporate catering unit in the PRC promises greater prospects for sustainable growth. Not only the in-house catering market has been flourishing in the past few years, the booming industry for retail catering services also saw double digit growth in the same period. Total sales in the retail catering industry will reach a growth rate of 10.5% CAGR from 2009 to 2019, extrapolated from historical data up to 2014 (**Appendix 7**), while the in-house catering market will be growing at a CAGR of 12%.

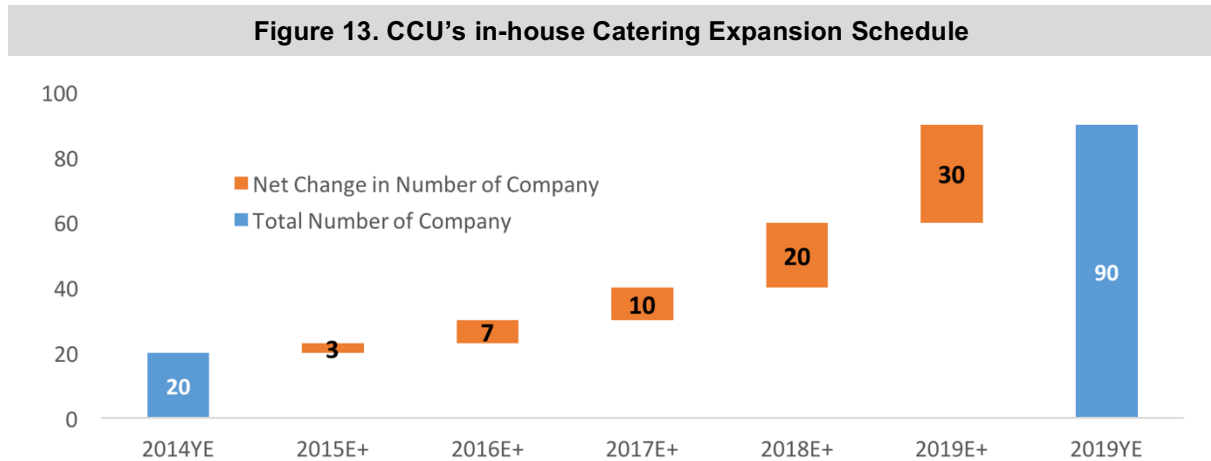
## 2. Details of proposed strategy

In the proposed expansion plan, SEL would increase two sub-units to CCU, namely Retail Catering and Event Catering, and extend its service to Mainland China.



## 2.1 In-house Catering

As SEL currently operates in-house catering unit in Hong Kong, it is proposed that SEL should extend this service into China with the objective of serving 90 companies at the end of year 2019 (**Figure 13**).



SEL can leverage its experience of in-house catering in Hong Kong and lower bidding price in early stage of entering China to build greater brand awareness. This facilitates the later stage of full expansion and it is expected that the number of company SEL serves would increase drastically in 2018 and 2019.

## 2.2 Retail Catering

**Target Customer & Offerings:** CCU's Retail Catering offers a wide range of standardized and quality goods to other catering organizations that do not specialize in food production or want to lower cost by farming out some of the food production process. For example, CCU may supply baked goods such as cakes and sandwiches for coffee shops.

**Operation Model:** The Sales team bridges clients' needs to the production team. They are responsible for discussing details of the contract including the food packaging,



frequencies of delivery, etc. The Centralized Food Processing Centre of CCU manufactures food and be delivered to clients by CCU's own logistics team.

**Differentiation:** The parent company of CCU is a significant player in the food & beverage market. It has excellent reputation for its food quality and workplace safety. CCU may inherit this reputation and be recognized as a reliable and high quality supplier.

The use of a Centralized Food Processing Centre enhances the efficient use of resources. Moreover, CCU may utilize the supplier sources of its parent company and purchase raw material at a larger discount. Overall, CCU enjoys a lower average cost and may offer a lower price relative to its peers.

**Initiation:** The Unit can leverage SEL's brand name and reach out to large organizations that are its potential partners for retail catering. For the first batch of candidates of retail catering, the Unit can reach out to coffee shop chains and housing clubhouses that might run coffee kiosks.

### 2.3 Event Catering

**Target Customer & Offerings:** CCU Event Catering offers off-site catering services for businesses and individuals in various corporate, social or leisure occasions by supplying platters and dishes to clients' event venue. Building upon a basic menu list that ranges from Western to Asian cuisine, clients can customize the food selection with CCU to suit their specific events needs. Clients can also upgrade to the premium side services offered by CCU, such as wait service staff, warming dishes, bands and DJs entertainment, as well as venue booking from CCU's range of partner venues.

**Operation Model:** CCU's Sales team discusses with clients for the catering service details, any client's special dietary, taste or budgetary needs is considered by the team in order to offer the most suited menu selection for customers.

The Centralized Food Processing Centre of CCU prepares the platters and dishes that are ready to be served at the event venues. Food is delivered to clients' event venues by the Logistic team of CCU. Upon requests for special dishes and services, temporary kitchens will be set up at the venue to cater for the events' distinctive needs.

The Event Catering unit also partners with several external private venue providers, offering a selection of unique venues for those clients who want to book venues from CCU to choose from.

**Differentiation:** CCU's Event Catering unit offers flexible selection and tailored food offerings and services that matches clients' specific needs in every special event. The extensive array of additional side services offered by CCU make client's event uniquely special, while minimizing clients' needs in taking care of every details of the event.

Leveraging on SEL's renowned reputation for food and workplace safety, CCU can take advantage of this to stand out as a catering service provider that focuses on the high standard of quality in the food and services they offer.

### 3. Financial implications of proposed strategy

We estimate that CCU's cost-effective operational model will significantly reduce fixed and variable costs in the manufacturing process. Gross profit margins will increase by as much as 2% on the conservative case as costs are decreased through the use of a Centralized Food-Processing Kitchen. A DCF analysis of our proposed strategy yielded an NPV of HKD\$1.2 billion, which is significantly greater than SEL's current operations which promises a higher expected return on the investment.

**Figure 14. DCF Analysis of Proposed Strategy**

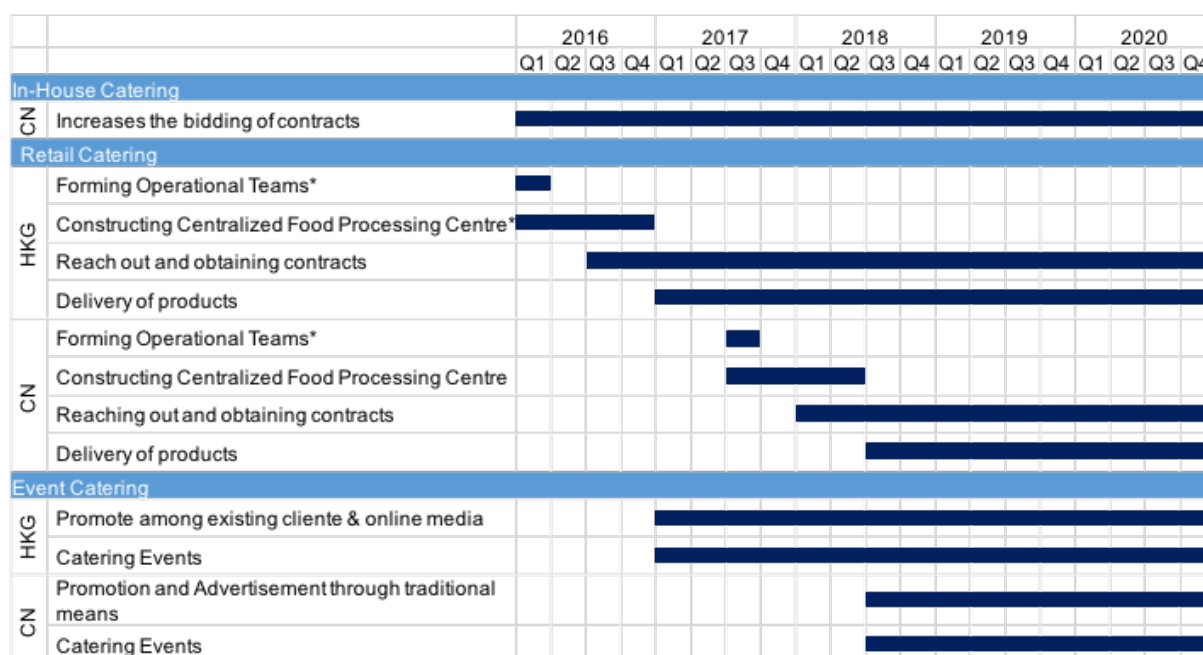
DCF Analysis for SEL Corporate Catering Unit		Projection Period				
Calendar Year ended December 31st (in thousands of HKD)		2015	2016	2017	2018	2019
<b>EBITDA</b>		461,346.1	564,045.8	698,502.1	810,262.5	939,904.5
Less: D&A		(133,723.5)	(133,389.2)	(176,836.0)	(76,923.7)	(59,487.6)
<b>EBIT</b>		327,622.6	430,656.6	521,666.1	733,338.8	880,416.8
Less: Tax expense		(51,751.2)	(64,728.3)	(76,518.6)	(108,933.2)	(131,575.4)
<b>EBIAT</b>		275,871.4	365,928.3	445,147.6	624,405.7	748,841.4
Plus: D&A		133,723.5	133,389.2	176,836.0	76,923.7	59,487.6
Less: Increase in Capex		(267,447.0)	(266,778.4)	(353,672.0)	(153,847.3)	(118,975.2)
Less: Increase in NWC		(45,878.8)	(7,003.5)	(9,074.6)	(13,906.4)	(16,131.4)
<b>Unlevered FCF</b>		<b>96,269.1</b>	<b>225,535.6</b>	<b>259,237.0</b>	<b>533,575.6</b>	<b>673,222.4</b>
WACC	11.3%					
Discount Period	5.0					
Discount Factor	58.5%					
<b>PV of Unlevered FCF</b>		<b>86,481.3</b>	<b>182,006.0</b>	<b>187,933.0</b>	<b>347,486.2</b>	<b>393,854.2</b>
<b>NPV of Unlevered FCF</b>		<b>\$ 1,197,760.8</b>				

### Part V. Funding Plan

The proposed strategy requires a capital investment of HKD 1.2 billion in total (**Appendix 4 & 5**) throughout the 5-year strategic planning time frame. This amount mainly includes cost of centralized food processing centers construction and logistics equipment. We propose a self-finance plus corporate-bond funding plan. Half of the required capital would be raised by issuance of 10-year corporate bond at coupon rate of 3.47% (**Appendix 6**) in 2016. In this way, only half of the free cash flow generated under normal operation would be used up.

## Part VI. Implementation Timeline

The full implementation timeline by sub-units and regions is as follow:

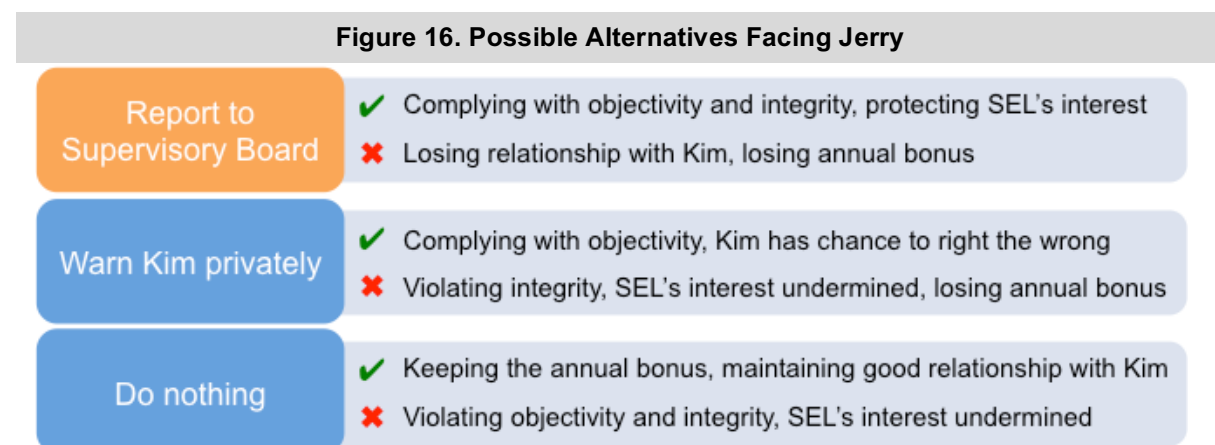


\*Operational Teams(Sales, Administration and Logistics) and Food Processing Centre will be shared between the Retail and Event Catering sub-units

## Part VII. Ethical Conundrum

Kim Ho, CFO of SEL, hired her husband’s asset management company to advise SEL. The company advises SEL to issue corporate bond at a cost of 3% commission, which is higher than the normal market rate of 1%. Jerry Wong, the financial controller, notices this while he does not foresee a cash flow problem. Clearly, Kim is suspected to collude with her husband for monetary interest. According to “Code of Ethics for Professional Accountants” (“COE”) published by HKICPA, Jerry Wong, a CPA, should always comply with the Fundamental Principles

(COE Section 100.5) even though under threats (COE Section 100.12) to compromise (figure 15). In this ethical conundrum, there are several alternatives facing Jerry.



After evaluating the alternatives (Figure 16), we suggest Jerry report the issue directly to the supervisory board. Although he might undertake the risk of confronting Kim and thus losing his year-end bonus, this allows him to comply with COE core principles and ethical standards as a CPA and safeguard company interest as a qualified financial controller.

Part VIII. Conclusion

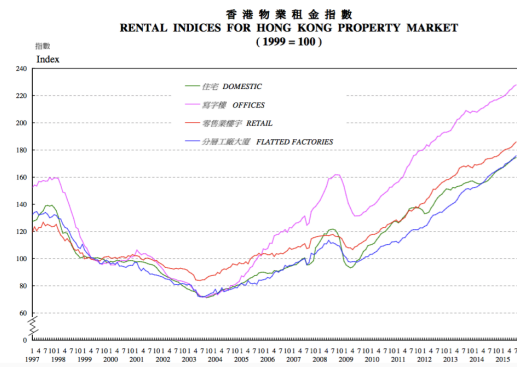
In view of the comprehensive analysis of all the strategies and market conditions, we consider expanding the CCU into new offerings and regions, financed by issuance of corporate bonds, would be the best option for SEL. With the advantage in costs and operation, the proposed strategy can create very positive impact on SEL’s financial performance.

Part IX. Appendices

Appendix 1 – List of Major Food Scandals

Date	Event	Affected end-users
Jul-14	Shanghai Fuxi Food Products supplied expired meat products	Mcdonald's, KFC, Pizza Hut
Oct-13	Illegal production of 'gutter oil' using garbage and sold to street vendors	Restaurants, street vendors
May-13	Founded lamb meat that contained rat and mint meat, according to Ministry of Public Security	Yum-owned "Little Sheep" chain
May-09	Tapioca pearls used for bubble tea were adulterated with macromolecular polymers to improve their texture	Beverage vendors

Appendix 2 –HK Rental



Appendix 3 – Estimated China In-house Catering Market Size

China (HKD mn)	2009	2010	2011	2012	2013	2014
Consumer Expenditure	550,183	594,662	710,662	787,946	873,063	967,634
<b>Corporate Catering</b>	<b>43,827</b>	<b>47,370</b>	<b>56,610</b>	<b>62,767</b>	<b>69,547</b>	<b>77,080</b>
<b>y-o-y growth rate (%)</b>	-	<b>8.08%</b>	<b>19.51%</b>	<b>10.87%</b>	<b>10.80%</b>	<b>10.83%</b>

China (HKD mn)	2015E	2016E	2017E	2018E	2019E	2020E
Consumer Expenditure	1,072,449	1,188,618	1,317,370	1,460,068	1,618,224	1,793,512
<b>Corporate Catering</b>	<b>85,430</b>	<b>94,684</b>	<b>104,940</b>	<b>116,307</b>	<b>128,905</b>	<b>142,869</b>
<b>y-o-y growth rate (%)</b>	<b>11.95%</b>	<b>11.95%</b>	<b>11.95%</b>	<b>11.95%</b>	<b>11.95%</b>	<b>11.95%</b>

Estimation Rationale: Base on the U.S corporate catering market size (USD 51,000 mn) as percentage of U.S consumer expenditure (USD 517,909 mn), which is 7.97%. We applied the same percentage on China’s consumer expenditure historical and estimated data from Euromonitor International to get the estimation.

## Appendix 4 – Estimated Total Cost of Centralized Food Processing Centers

(HKD '000)	Capacity (Meals/day)	Building cost	Land price (sq ft)	Area (sq ft)	Land Price	Total Cost
Hong Kong	10,000	69,400	3,000	20,000	60,000	129,400
Shanghai	40,000	146,000	1,550	80,000	124,000	270,000
Beijing	40,000	146,000	1,050	80,000	84,000	230,000
Guangzhou	40,000	146,000	1,640	80,000	131,200	277,200
Shenzhen	40,000	146,000	1,590	80,000	127,200	273,200
<b>Total</b>	<b>170,000</b>	<b>653,400</b>	<b>-</b>	<b>340,000</b>	<b>526,400</b>	<b>1,179,800</b>

Source: Shanghai, Beijing, Guangzhou, Shenzhen Municipal Government

## Appendix 5 – Estimated Cost of Delivery Trucks

(HKD)	Quantity	Cost
Hong Kong	10	4,000,000
China (Guangzhou, Shenzhen, Shanghai, Beijing)	80	32,000,000
<b>Total</b>	<b>90</b>	<b>36,000,000</b>

## Appendix 6 – Recent Issuance of Corporate Bond in Hong Kong

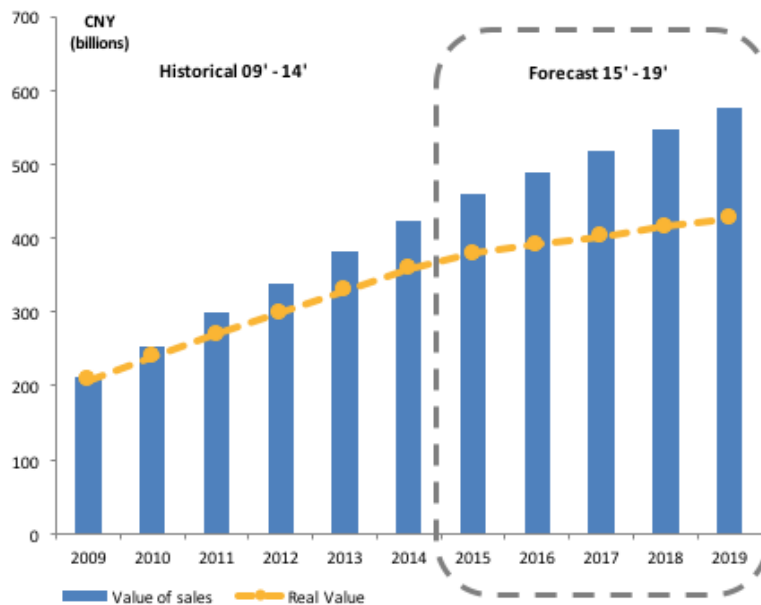
Company	Moody	S&P	Listing Date	Maturity	Length of Tenor (Yrs)	Coupon Rate	Coupon Type	Payment Frequency
Proben Honour Capital Ltd	--	--	19/5/15	19/5/25	10	4.13%	Fixed	Semi-annual
Swire Pacific Mtn Financing Ltd	--	A-	31/7/15	31/7/25	10	3.35%	Fixed	Semi-annual
Sun Hung Kai Properties (Capital Market) Ltd	--	A+	20/7/10	20/7/20	10	3.65%	Fixed	Quarterly
Sinopec Group Overseas Development 2013 Ltd	Aa3	AA-	17/10/13	17/10/23	10	4.38%	Fixed	Semi-annual
Lenovo Group Ltd	--	--	10/6/15	10/6/20	5	4.95%	Fixed	Semi-annual
Sinopec Group Overseas Development (2015) Ltd	Aa3	AA-	28/4/15	28/4/20	5	2.50%	Fixed	Semi-annual
Wheelock Finance Limited	--	--	4/5/12	4/5/17	5	4.05%	Fixed	Annual
<b>Average</b>						<b>3.86%</b>		

Coupon Rate Determination Rationale: We took the average of recent issuance of 5-year to 10-year corporate bonds, and applied a 10% discount given that SEL is financially healthy and presumably would get a discount for higher credit rating.

Appendix 7 – SWOT Analysis

	<p><b>Strength</b></p> <ol style="list-style-type: none"> <li>1. Large network of outlets</li> <li>2. Brand awareness in HK</li> <li>3. Strong financial position</li> <li>4. Excellent reputation for food and workplace safety</li> </ol>	<p><b>Weaknesses</b></p> <ol style="list-style-type: none"> <li>1. Weak cost management</li> <li>2. Inefficient working capital management</li> <li>3. Unsatisfactory business growth in HK</li> <li>4. Falling profitability in existing business</li> </ol>
<p><b>Opportunity</b></p> <ol style="list-style-type: none"> <li>1. Substantial economic growth in China</li> <li>2. Increasing number of business corporations in HK and first-tier cities of China</li> <li>3. Rising interest in HK food offerings by mainlanders</li> <li>4. Increasing consumer interest in coffee in South-east Asia</li> </ol>	<p><b>SO</b></p> <ol style="list-style-type: none"> <li>1. Tap into the corporate catering business in mainland China</li> <li>2. Offer in-house catering services to corporates in mainland China</li> <li>3. Deliver distinctive event catering services to individuals and corporations in mainland China</li> </ol>	<p><b>WO</b></p> <ol style="list-style-type: none"> <li>1. Transfer resources spent on fast food outlets to Corporate Catering Unit</li> <li>2. Expanding into the China market</li> <li>3. Broaden the choice of beverages in the menus of existing fast food chains</li> </ol>
<p><b>Threat</b></p> <ol style="list-style-type: none"> <li>1. Rising rental cost in HK and China</li> <li>2. Difficult to find suitable premises for new catering outlets in HK</li> <li>3. Increasing competition from other food chains in HK</li> </ol>	<p><b>ST</b></p> <ol style="list-style-type: none"> <li>1. Sustain usual growth in its fast food business in HK</li> <li>2. Maintain customer's loyalty to SEL's brand</li> </ol>	<p><b>ST</b></p> <ol style="list-style-type: none"> <li>1. Shifting the focus to SEL's Corporate Catering Unit where retail stores are not needed for expansion</li> <li>2. Cease heavy investing capital in acquiring new premises for its fast food chain</li> </ol>

Appendix 8 – Retail Catering Industry Revenue in China



Highlights:  
 Total sales in the retail catering industry will reach a growth rate of 10.5% CAGR from 2009 to 2019

Source: Euromonitor



Appendix 9 – Financial Summary of SEL Under Natural Growth

(HKD '000)	12/2013A	12/2014A	12/2015E	12/2016E	12/2017E	12/2018E	12/2019E
<b>Income Statement Summary</b>							
Sales	2,665,080	2,984,900	3,283,390	3,578,895	3,865,207	4,135,771	4,383,917
COGS	(2,066,621)	(2,438,373)	(2,613,578)	(2,848,800)	(3,076,705)	(3,292,074)	(3,489,598)
SG&A	(136,852)	(157,688)	(170,736)	(186,103)	(200,991)	(215,060)	(227,964)
EBITDA	473,464	401,765	485,942	529,676	572,051	612,094	648,820
<b>Balance Sheet Summary</b>							
Total Asset	1,870,403	1,881,088	2,054,040	2,219,239	2,394,514	2,578,645	2,770,150
Total Liabilities	263,816	257,907	304,357	331,749	358,289	383,369	406,371
Total Equity	1,606,587	1,623,181	1,749,683	1,887,491	2,036,225	2,195,276	2,363,779
<b>Cash Flow Statement Summary</b>							
CF From Operations	-	-	448,867	447,635	482,434	515,143	544,940
CF From Investing	-	-	(164,170)	(178,945)	(193,260)	(206,789)	(219,196)
CF From Financing	-	-	(295,172)	(321,551)	(347,046)	(371,120)	(393,174)
Unlevered FCF	-	-	195,442	254,447	275,553	295,650	314,256
PV of FCF	-	-	175,571	205,338	199,761	192,540	183,849

Appendix 10 – Assumptions Table for Proposed Strategy

Assumptions for Projected Financial Statements for SEL

Dollars in thousands of HKD except per share

	Historical Data		Projected Data				
	12/2013A	12/2014A	12/2015E	12/2016E	12/2017E	12/2018E	12/2019E
<b>Income Statement Assumptions</b>							
Sales growth rate		12.0%	12.0%	14.0%	16.0%	16.0%	16.0%
Gross margin	22.5%	18.3%	20.0%	21.0%	22.0%	22.0%	22.0%
SG&A expenses (as % of sales)	-5.1%	-5.3%	-5.8%	-5.8%	-5.8%	-5.8%	-5.8%
Other operating (income) / expenses (as % of sales)	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
Other non-operating (income) / expense (as % of sales)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Depreciation (% of sales)	-3.9%	-4.0%	-2.0%	-2.0%	-2.0%	-2.0%	-2.0%
Effective tax rate	16.3%	16.5%	16.4%	16.4%	16.4%	16.4%	16.4%
<b>Working Capital Assumptions</b>							
Number of days in the period		365					
Accounts receivable, net (collection period in days)	5.0	5.3	5.1	5.1	5.1	5.1	5.1
Inventories (days outstanding)	14.6	14.5	14.6	14.6	14.6	14.6	14.6
Other current assets (as % of sales)	2.1%	3.1%	2.6%	2.6%	2.6%	2.6%	2.6%
Accounts payable (days outstanding)	12.5	10.4	11.4	11.4	11.4	11.4	11.4
Accrued liabilities (as % of cost of goods sold)	-8.3%	-7.1%	-7.7%	-7.7%	-7.7%	-7.7%	-7.7%
Income tax payable (days outstanding)	3.9	2.2	3.0	3.0	3.0	3.0	3.0
Other current liabilities (as % of cost of goods sold)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Capital Expenditures Assumptions</b>							
Capital Expenditures (% of sales)			8.0%	7.0%	8.0%	3.0%	2.0%
Depreciation (% of Capex)			50.0%	50.0%	50.0%	50.0%	50.0%
<b>Dividend assumptions</b>							
Dividend payout ratio	92.0%	92.9%	70.0%	70.0%	70.0%	80.0%	90.0%
<b>Interest Rate Assumptions</b>							
Long-term debt interest			8.0%	8.0%	8.0%	8.0%	8.0%
Cash interest			0.4%	0.4%	0.4%	0.4%	0.4%
<b>Long-term debt</b>							
Issuance of Corporate Bonds			400,000.0	300,000.0	300,000.0	200,000.0	200,000.0
Coupon Repayments			(13,880.0)	(10,410.0)	(10,410.0)	(7,000.0)	(7,000.0)
Coupon rate			3.5%	3.5%	3.5%	3.5%	3.5%

## Appendix 11 – Projected Financial Statements for SEL (proposed strategy implemented)

## Projected Financial Statements for SEL

Dollars in thousands of HKD except per share

## Consolidated Statement of Profit or Loss (5 year projection)

	12/2015E	12/2016E	12/2017E	12/2018E	12/2019E
Sales	\$ 3,343,088.0	\$ 3,811,120.3	\$ 4,420,899.6	\$ 5,128,243.5	\$ 5,948,762.5
Cost of goods sold, excluding depreciation	(2,674,470.4)	(3,010,785.1)	(3,448,301.7)	(4,000,029.9)	(4,640,034.7)
<b>Gross Profit</b>	<b>\$ 668,617.6</b>	<b>\$ 800,335.3</b>	<b>\$ 972,597.9</b>	<b>\$ 1,128,213.6</b>	<b>\$ 1,308,727.7</b>
SG&A Expenses, excluding amortization	(193,899.1)	(221,045.0)	(256,412.2)	(297,438.1)	(345,028.2)
Other operating income / (expenses)	(13,372.4)	(15,244.5)	(17,683.6)	(20,513.0)	(23,795.0)
<b>EBITDA</b>	<b>\$ 461,346.1</b>	<b>\$ 564,045.8</b>	<b>\$ 698,502.1</b>	<b>\$ 810,262.5</b>	<b>\$ 939,904.5</b>
Depreciation	(133,723.5)	(127,538.8)	(157,419.3)	(63,164.5)	(44,636.3)
<b>EBIT</b>	<b>\$ 327,622.6</b>	<b>\$ 436,507.0</b>	<b>\$ 541,082.8</b>	<b>\$ 747,098.0</b>	<b>\$ 895,268.2</b>
Income taxes	(51,751.2)	(65,691.1)	(79,722.9)	(112,336.5)	(137,304.4)
<b>Net Income</b>	<b>\$ 263,804.8</b>	<b>\$ 334,864.5</b>	<b>\$ 406,392.2</b>	<b>\$ 572,642.0</b>	<b>\$ 699,917.4</b>

## Consolidated Statement of Cash Flows (5 year projection)

	12/2015E	12/2016E	12/2017E	12/2018E	12/2019E
<b>Operating activities</b>					
Net income	263,804.8	329,956.7	390,058.2	555,293.5	670,713.7
Depreciation and Amortization	(133,723.5)	(133,389.2)	(176,836.0)	(76,923.7)	(59,487.6)
Change in working capital	45,878.8	7,003.5	9,074.6	13,906.4	16,131.4
Cash Flow from Operating Activities	175,960.1	203,570.9	222,296.8	492,276.2	627,357.5
<b>Investing activities</b>					
Capital expenditures	(267,447.0)	(266,778.4)	(353,672.0)	(153,847.3)	(118,975.2)
Cash Flow from Investing Activities	(267,447.0)	(266,778.4)	(353,672.0)	(153,847.3)	(118,975.2)
<b>CASH FLOW AVAILABLE FOR FINANCING A</b>	<b>(91,486.9)</b>	<b>(63,207.5)</b>	<b>(131,375.2)</b>	<b>338,428.9</b>	<b>508,382.2</b>
<b>Financing activities</b>					
Issuance of long-term debt	400,000.0	300,000.0	300,000.0	200,000.0	200,000.0
Repayment of long-term debt	(42,481.5)	(58,344.0)	(76,244.4)	(82,254.1)	(90,976.0)
Dividends paid	(184,663.4)	(230,969.7)	(273,040.7)	(444,234.8)	(603,642.3)
Cash Flow from Financing Activities	172,855.1	10,686.4	(49,285.1)	(326,488.8)	(494,618.3)
Net Change in Cash	81,368.2	(52,521.1)	(180,660.3)	11,940.0	13,763.9
Beginning cash balance	478,878.0	560,246.2	507,725.1	327,064.8	339,004.8
<b>Ending cash balance</b>	<b>\$ 560,246.2</b>	<b>\$ 507,725.1</b>	<b>\$ 327,064.8</b>	<b>\$ 339,004.8</b>	<b>\$ 352,768.7</b>

## Consolidated Balance Sheet (5 year projection)

	12/2015E	12/2016E	12/2017E	12/2018E	12/2019E
Cash & equivalents	560,246.2	507,725.1	327,064.8	339,004.8	352,768.7
Accounts receivable	46,711.6	53,251.3	61,771.5	71,654.9	83,119.7
Inventories	106,978.8	120,431.4	137,932.1	160,001.2	185,601.4
Other current assets	86,920.3	99,089.1	114,943.4	133,334.3	154,667.8
Total Current Assets:	800,857.0	780,496.9	641,711.7	703,995.3	776,157.6
PP&E, net	1,570,431.6	1,970,599.2	2,501,107.1	2,731,878.1	2,910,341.0
<b>Total Assets:</b>	<b>\$ 2,371,288.5</b>	<b>\$ 2,751,096.1</b>	<b>\$ 3,142,818.9</b>	<b>\$ 3,435,873.4</b>	<b>\$ 3,686,498.6</b>
Accounts payable	83,531.4	94,035.5	107,700.4	124,932.4	144,921.6
Accrued Liabilities	205,934.2	231,830.4	265,519.2	308,002.3	357,282.7
Income Tax Payable	21,981.9	24,746.2	28,342.2	32,877.0	38,137.3
Other Current Liabilities	-	-	-	-	-
Total Current Liabilities	311,447.6	350,612.1	401,561.8	465,811.7	540,341.6
Long-term debt	357,518.5	599,174.6	822,930.1	940,676.1	1,049,700.1
Other long-term liabilities	-	-	-	-	-
Total Liabilities	668,966.1	949,786.7	1,224,492.0	1,406,487.8	1,590,041.6
Total Equity	1,702,322.4	1,801,309.4	1,918,326.9	2,029,385.6	2,096,457.0
<b>Total Liabilities and Equity</b>	<b>\$ 2,371,288.5</b>	<b>\$ 2,751,096.1</b>	<b>\$ 3,142,818.9</b>	<b>\$ 3,435,873.4</b>	<b>\$ 3,686,498.6</b>

## Appendix 12– Comparables of SEL

## GICS Sub-industry: Food Retail

Ticker	Name	Sales Growth (%)	EBITDA Growth (%)	EBITDA Margin	Operating Income
FIVE LI Equity	X 5 RETAIL GROUP NV-REGS GDR	NA	NA	7.6	5.1
COSCO PM Equity	COSCO CAPITAL INC	33.2	41.5	10.5	NA
2651 JP Equity	LAWSON INC	32.3	0.7	57.1	35.0
L CN Equity	LOBLAW COMPANIES LTD	29.4	114.6	7.2	3.7
WN CN Equity	WESTON (GEORGE) LTD	28.7	97.1	7.8	4.2
8028 JP Equity	FAMILYMART CO LTD	24.3	20.4	67.6	39.4
BIMAS TI Equity	BIM BIRLESIK MAGAZALAR AS	21.1	18.6	4.7	3.7
SFM US Equity	SPROUTS FARMERS MARKET INC	20.4	21.5	8.5	6.4
002251 CH Equity	BETTER LIFE COMMERCIAL CHA-A	20.3	NA	NA	2.1
AMRT IJ Equity	SUMBER ALFARIA TRIJAYA TBK P	15.7	15.0	5.9	2.5
DELB BB Equity	DELHAIZE GROUP	14.4	6.0	5.1	2.3

**2015 QP Case Analysis Competition (HK)**

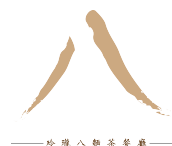
**Written Report  
Of Champion Team**





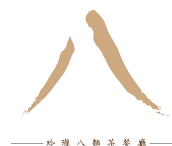
HKICPA  
QP CASE ANALYSIS COMPETITION  
2015

— 玲瓏八麵茶餐廳 —  
Your recipe. Our story.



## Table of Contents

<b>1. Executive Summary</b>	<b>1</b>
<b>2. Introduction</b>	<b>2</b>
2.1. Market Overview	
2.2. Company situation	
<b>3. Our Business</b>	<b>2</b>
3.1. Objective	
3.2. Company Name	
<b>4. Market Situation</b>	<b>3</b>
4.1. Market	
4.2. Customer	
<b>5. Business Model</b>	<b>4</b>
5.1. C.H.A. Project	
5.2. Market Positioning	
5.3. Operating Model	
<b>6. Operational and Financial Performance</b>	<b>10</b>
6.1. Inefficient Management of Working Capital	
6.2. Unnecessarily Low Debt-To-Equity Ratio	
6.3. Weakness in Gathering Revenue and Managing Expenses	
<b>7. Implementation and Investment Strategies</b>	<b>11</b>
7.1. Development Stages	
7.2. Investment Strategies	
<b>8. Funding Arrangement</b>	<b>15</b>
8.1. Cash Arrangement from Parent Company	
8.2. Bank Loans	
8.3. Issuance of New Shares	
<b>9. Performance Forecast</b>	<b>16</b>
<b>10. Ethical Scenario</b>	<b>17</b>
10.1. Ethical Issue	
10.2. Actions	
<b>11. Conclusion</b>	<b>18</b>
<b>12. Appendices</b>	<b>19</b>



## 1 Executive Summary

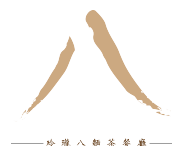
This report is prepared to evaluate the condition of the **Speed Eater Limited (SEL)** for an expansion proposal into the Cha Chaan Teng industry in China.

The company and market situations are analyzed to provide a basis for further investigation and recommendation. Having recognized the huge potential in Cha Chaan Teng industry in China, a new chain of **Speed Eater Tengs (SET)** (玲瓏八麵茶餐廳) is proposed to be launched to explore more business opportunities for SEL.

With regards to the market situation and consumer trends in China, we will introduce the **C.H.A. Project**. A market position of a mid-end restaurant will be established for SET. Our operation model would also feature a focus on food quality, the setup of a central kitchen and staff training.

To assess SEL's ability in carrying out the proposal, the operational and financial performance of SEL has been evaluated. The problems of inefficient management of working capital, unnecessarily low debt-to-equity ratio, and weakness in gathering revenue and managing expenses are observable in SEL. Based on the company situation, a set of implementation and investment strategies is recommended. A development stage is drawn with the goals of brand name building, expansion and efficient operation. Investment strategies are recommended in terms of cash outflow projection and risk management. To achieve our plans, a funding arrangement supported by cash arrangement from parent company, bank loans and issuance of new shares is proposed with a financial plan for the coming 5 years. A performance forecast for SET is then made, which predicts the profit to double up after 5 years.

Lastly, an ethical scenario is analyzed with recommendations for the solution.



## 2 Introduction

### 2.1 Market Overview

Cha Chaan Teng is a style of casual restaurant originated from Hong Kong that specialises in serving affordable dishes which combines Western and Asian elements.<sup>1</sup> The continuous urbanization in China has contributed to a robust growth in the casual dining sector, especially in the Cha Chaan Teng category<sup>2</sup>.

### 2.2 Company Situation

With high rentals in Hong Kong, the company is facing more difficulties in renting premises. Cost of labor and materials has also been surging. This has led to a decline in the sales revenue growth. Therefore, the company should diversify its business and invest in Cha Chaan Tengs in mainland China. Below is the SWOT Analysis for SEL:

Figure 1. SWOT analysis



## 3 Our Business

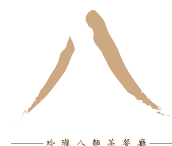
### 3.1 Objectives

Retaining the original objectives of SEL, SET targets at offering cheerful, popular food at a reasonable price, while diversifying risks and securing food quality and the company's reputation. With the application of technology, we aim to provide service in a convenient and time-efficient manner.

<sup>1</sup>Tsui Wah (Group) Holdings Corporation. (2012). Prospectus.P73.  
[http://www.hkexnews.hk/listedco/listconews/SEHK/2012/1114/01314\\_1480907/C114.pdf](http://www.hkexnews.hk/listedco/listconews/SEHK/2012/1114/01314_1480907/C114.pdf)

<sup>2</sup>Bi Feng Tang (Group) Holdings Corporation. (2015, Sept). Prospectus.P59.  
<http://www.hkexnews.hk/app/SEHK/2015/2015090201/a5848/EBIFENGTANG-20150902-14.PDF>





### 3.2 Company Name

Our company name “玲瓏八麵” is derived from the Chinese idiom “八面玲瓏” with a wordplay of “麵”, in which SET is specialized. “八麵(面)”, which resembles “multi-dimensional” in Chinese, represents the variety of our food that will be offered by SET. Besides, “瓏” sounds similar to “dragon” in Chinese, which is a symbol of power and strength in Chinese culture. For the English name, “Speed Eater Tengs” is used in compliance with the name of the company while representing the nature of the new chain as Cha Chaan Tengs.

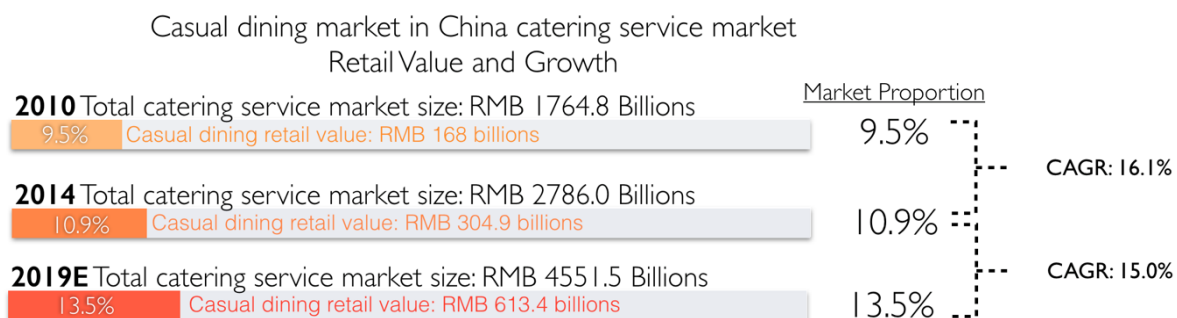
## 4 Market Situation

### 4.1 Market

#### 4.1.1 Market Size - Casual Dining Market in China (Appendix 1)

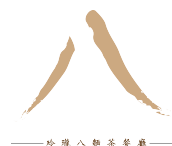
China’s casual dining has experienced the most rapid development among different catering segments in recent years, with a compound annual growth rate of 16.1% in retail value from 2010 to 2014. The figure is expected to further increase with a compound annual growth rate(CAGR)<sup>3</sup> of 15.0% in the coming 5 years<sup>4</sup>.

Figure 2. Market analysis (1)



<sup>3</sup> CAGR refers to the annual growth rate over a specified period of time

<sup>4</sup> Forecast data of growth rate is from Frost & Sullivan. Retrieved from Bi Feng Tang (Group) Holdings Corporation. (2015, Sept). prospectus.P59.http://www.hkexnews.hk/app/SEHK/2015/2015090201/a5848/EBIFENGTANG-20150902-14.PDF



### 4.1.2 Major Entry Barriers

#### Consumers' brand awareness:

Consumers tend to have a strong preference towards those with good brand name when choosing casual Chinese dining restaurants. **SET** will benefit from the well-established brand name of SEL due to the SEB chain in mainland China.

#### Stable food supply with quality and safety:

After a series of food safety scandals in China, food quality and safety has become a major concern of customers. Several measures, including setting up a central kitchen and a Food Quality Team, will be carried out to ensure a safe supply of food.

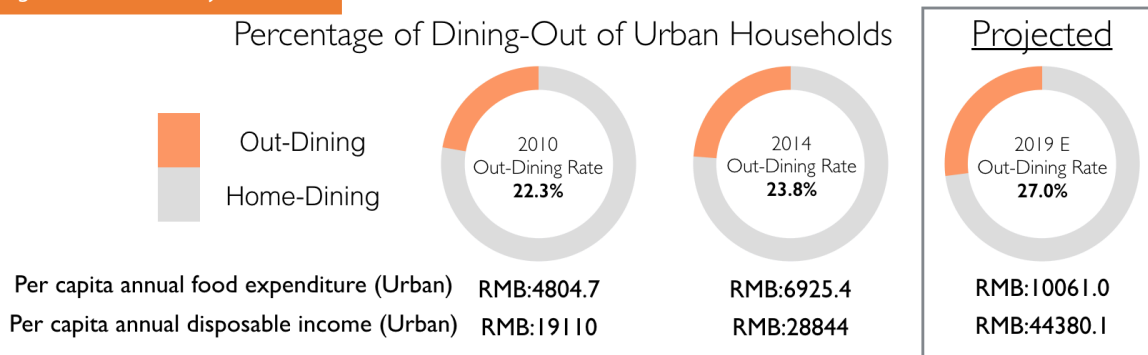
#### Catering service permit:

Operation of restaurants in China requires catering service permit. With the well-maintained reputation of SEB, our company is expected to easily obtain the permit for the new chain and outlets. The security of food quality and company reputation will remain our major objectives to ensure the continuity of the permit.

## 4.2 Customer

The increasing disposable income, growing middle class and widespread dining-out trend<sup>5</sup> in China have contributed to a robust growth in its catering service market.

Figure 3. Market analysis (2)



\*Projected per capita annual food expenditure is retrieved from Bi Feng Tang (Group) Holdings Corporation.(2015, Sept).Prospectus.P54.  
\*Per capita annual disposable income is projected base on the historical data from Nation Bureau of Statistics

<sup>5</sup>Bi Feng Tang (Group) Holdings Corporation.(2015, Sept).Prospectus.P74.  
<http://www.hkexnews.hk/listedco/listconews/SEHK/2014/1217/a4275/EXBXCML-20141201-14.PDF>

We also project that the percentage of dining-out of urban households, per capita

food expenditure and disposable income to continue to increase till 2019. We expect that the willingness and frequency of Chinese household to dine out to experience a continuous growth, hence benefiting the business of SET.

## 5 Business Model

### 5.1 C.H.A. Project

#### 5.1.1 C - Classic Cha Chaan Teng Culture

##### 5.1.1.1 Service

The classic Cha Chaan Teng culture will be adopted. This includes operating with high efficiency, aiming to deliver dishes within 15 minutes after customers' orders; and providing reasonably-priced food, where prices of dishes will be kept at around the generally affordable level of ¥ 50. Some traditions of Cha Chaan Teng, such as offering a cup of tea immediately once customers are seated, will be preserved at SET. Our staff will serve with a very friendly and welcoming attitude to offer our customers the sense of warmth and care as in classic Cha Chaan Tengs.

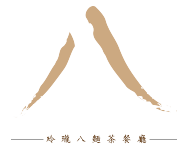
##### 5.1.1.2 Interior Design

Our restaurants will keep a simple design to give customers the vibe of Cha Chaan Tengs in the past. Slangs and casual dialects often used in traditional Cha Chaan Tengs will be incorporated in our design as wall decorations to let our customers sense the traditional culture of Cha Chaan Tengs.

#### Example of slangs and casual dialects

靚仔：白飯	行街：外賣
靚女：白粥	OT：檸檬茶
汪阿姐：熱咖啡	茶走：奶茶

## 5.1.2 H - Healthy Diet



### 5.1.2.1 Healthy Menu Options

With a trend of healthy diet growing in China<sup>6</sup>, we will provide healthy menu options for customers who would like to enjoy healthier food when dining out. Items such as vegetarian sets and low-calorie sets will be provided on our menu. The launch of such healthy options will be featured and promoted to encourage healthy eating among our customers.

### 5.1.2.2 Rewarding Scheme

We will encourage our customers to eat healthily by offering discounts for healthy diet options as incentives. By allowing customers to customize their own dish with the help of our app, we hope that they will be more aware of their health and choose wisely before they order food. We will also provide an array of healthy options, which includes requests for less salt, sugar, and oil; more vegetables, fruits and less meat, etc. Customers will be able to alter the taste of their dishes through the app. Those who choose healthy dishes will be rewarded with coupons and giveaway of a light snack or drink from our menu.

### 5.1.3 A - Apps Utilization

Customers will use an app designed by our company to order food. Tablets in which the app is installed will be provided for each table in our restaurant.



<sup>6</sup> How China's food safety scandals are turning Chinese onto healthy diets. 10 August, 2015. South China Morning Post. <http://www.scmp.com/news/china/society/article/1848112/chinese-get-appetite-healthier-diet> (Retrieved at 22nd Oct, 2015)

### 5.1.3.1 E-Order - “电子下单”

Figure 4. Flow of E-Order



With the E-Order function of the app, customers are enabled to make orders electronically to enhance efficiency and convenience. Tablets will be provided at every table in the restaurants to facilitate this function. For customers who would like to save ordering time, they may make their “recipes” at work or at home, and then order takeaways through the app or enter their recipe codes to the tablets when they visit SET. Customers who can afford time can also make recipes and orders with the tablets at the restaurants.

### 5.1.3.2 Make Your Own Recipe - “自订菜单”

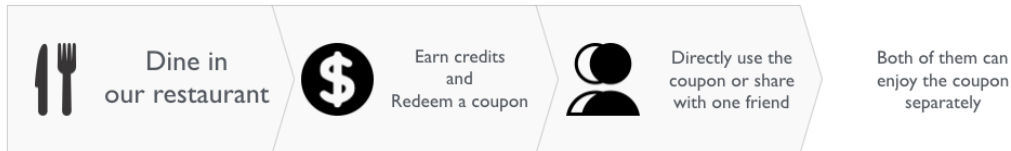
Customers will “make their own recipes” with control over what and how much to include in their dishes. Time and manpower for taking orders can be reduced, enhancing efficiency while allowing customers to order dishes according to their personal likings.

### 5.1.3.3 Membership - “会员吧”

Customers can register as our members through our website and app. After dining in our restaurant, members can gain credits according to the amount they spent. Credits can be redeemed as coupons, which can be used in their next visit.

Members can also share their coupons with one friend so that both of them can enjoy the same discount.

Figure 5. Coupon redemption



We hope that this policy would encourage frequent visits from our old customers, at the same time broadening our customer base. Besides, members can save their personal “recipes” in their accounts so that they can conveniently order the same dishes in future visits. Members’ “recipes” will be saved in our database so that we are able to research and develop new dishes based on our customers’ general likings.

## 5.2 Market Positioning

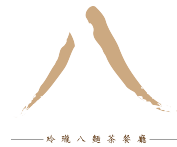
### 5.2.1 Product Type

Our major product type would be traditional Cha Chaan Teng dishes, which is a fusion of Chinese and Western cuisine. The dishes will be slightly modified according to the tastes and culinary cultures of different regions. We will also introduce some innovative, original dishes to attract more customers from the younger generation by developing new presentations of Cha Chaan Teng dishes in our Innovative Department.

### 5.2.2 Location

Our outlets will be mainly located in shopping malls. This is because according to the customer behavior in China, the flow of customers in shopping malls in China is relatively higher than that on the streets during rush hours and at night<sup>7</sup>.

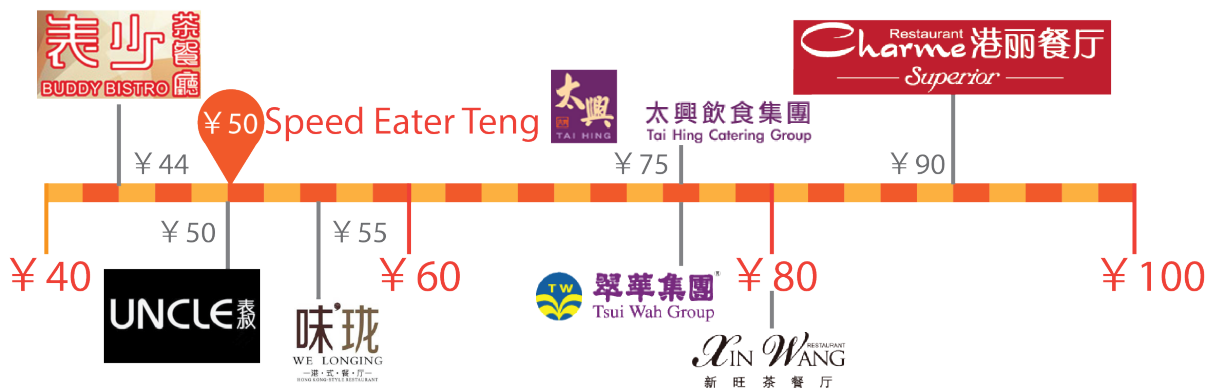
<sup>7</sup> Bloomberg BusinessWeek Chinese Issue#33.(2014).《香港茶餐廳 中國餐飲新勢力》(Retrieved at 22nd Sept, 2015)



### 5.2.3 Pricing Strategies

We aim to provide mid-end dishes for working class and typical households. Taking into consideration the price ranges of current competitors<sup>8</sup> and the change in CPI of food<sup>9</sup> in China, the estimated per-capita expenditure will be around ¥ 50.

Figure 6. Major competitors with per capita expenditure



### 5.2.4 Marketing Strategies

We will launch advertisements on WeiBo and major television channels, and offer coupons through WeChat and Groupon on Tmall. Celebrities will be invited to SET for meals to promote our business to a broader audience with their popularity. The promotion for our healthy diet rewarding system will also enhance our company image and gain goodwill through showing care for our customers. This can in turn boost our popularity among consumers in China.

## 5.3 Operating Model

### 5.3.1 Food Quality

Food quality is a major concern of consumers in China. To secure channels of safe food supply, we will use noodles produced by SEL. A Food Quality Team will be set

<sup>8</sup> Chain Cha Chaan Tengs in Guangdong Province are considered as major competitors. Price data retrieved from <https://www.dianping.com/>. (Retrieved at 1st Oct, 2015)

<sup>9</sup> CPI of food from National Bureau of Statistics of China. <http://data.stats.gov.cn/adv.htm?m=advquery&cn=A01>. (Retrieved at 1st Oct, 2015)

up to regularly evaluate and closely manage the quality of our supplies. We will also maintain partnership with suppliers for SEB that have proven their reliability and gained our confidence to safeguard dependable sources of food supply.

### 5.3.2 Central Kitchen

To secure the quality of our ingredients, we will construct a central kitchen in Dongguan, with the advantages of lower land price and a ‘central’ geographical location among Guangdong cities, Shenzhen and Hong Kong. With a central kitchen, we will be able to centralise the treatment and management of ingredients with a higher effectiveness. The central kitchen will also be used as a platform for training new chefs who will be assigned to outlets upon completion of training.

### 5.3.3 Staff Management

We will provide regular trainings for staff in the areas of cooking, quality serving and app usage. Staff will also be rated by “secret customers” in order to ensure the quality of the service we provide. Customers can also fill in questionnaires on our tablets to express their opinions on our overall service.

## 6 Operational and Financial Performance

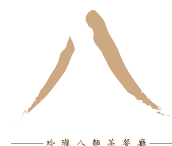
With regard to the figures below, we have summarized that SEL is suffering from the following 3 major problems:

	2013	2014	Percentage Change	Market Average <sup>10</sup>	Difference
Current Ratio	2.78	2.76	-0.72%	2.33	18.45%
CBLT	2.12	1.86	-12.26%	1.68	10.71%
Quick Ratio	2.47	2.38	-3.64%	2.15	10.70%
Total Debt Ratio	0.141	0.137	-2.84%	0.246	-44.31%
DE Ratio	0.164	0.159	-3.05%	0.345	-53.91%
Profit Margin	11.60%	7.88%	-32.07%	8.24%	-4.41%
ROA	16.50%	12.50%	-24.24%	8.82%	41.67%

Table 1. Financial analysis of SEL

<sup>10</sup> Market Value is calculated according to the interim reports from major listed chain restaurants in Hong Kong: Tsui Wah(1314.hk),Ajisen(0538.hk), Cafe De Coral(0341.hk),Fairwood(0052.hk) and Xiao Nan Guo (3666.hk)





## 6.1 Inefficient Management of Working Capital

The company's current ratio in both 2013 and 2014 is higher than 2. This indicates that we have more than enough of short term assets to cover short term debts. The company has failed to utilize its excess idle cash and assets, hence limiting company's growth.

## 6.2 Unnecessarily Low Debt-To-Equity Ratio

Our company's DE ratio is less than half of that of the market average. Our reluctance to raise debts may hinder us from taking advantage of the financial leverage, limiting our profit return.

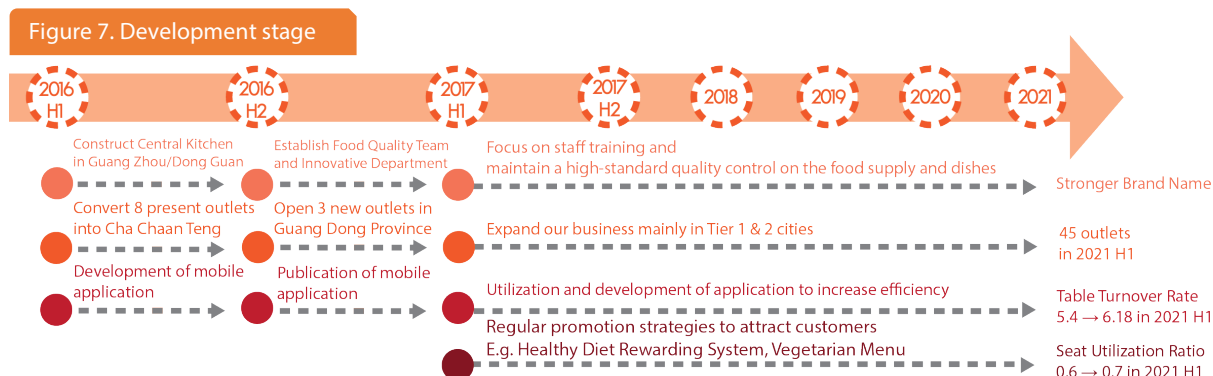
## 6.3 Weaknesses in Gathering Revenue and Managing Expenses

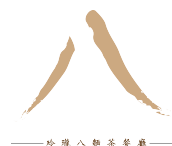
The profit margin has decreased by 32.07% from 2013 to 2014 and is currently lower than the market average. Return on assets has also decreased by 24.24%. The company has used a great amount of assets for production, however generating less profit. Better investment plan and resource allocation are needed.

# 7 Implementation and Investment Strategies

## 7.1 Development Stage

There are 3 objectives for our development, namely brand name building, expansion and efficient operations. Our development timeline is as follows:



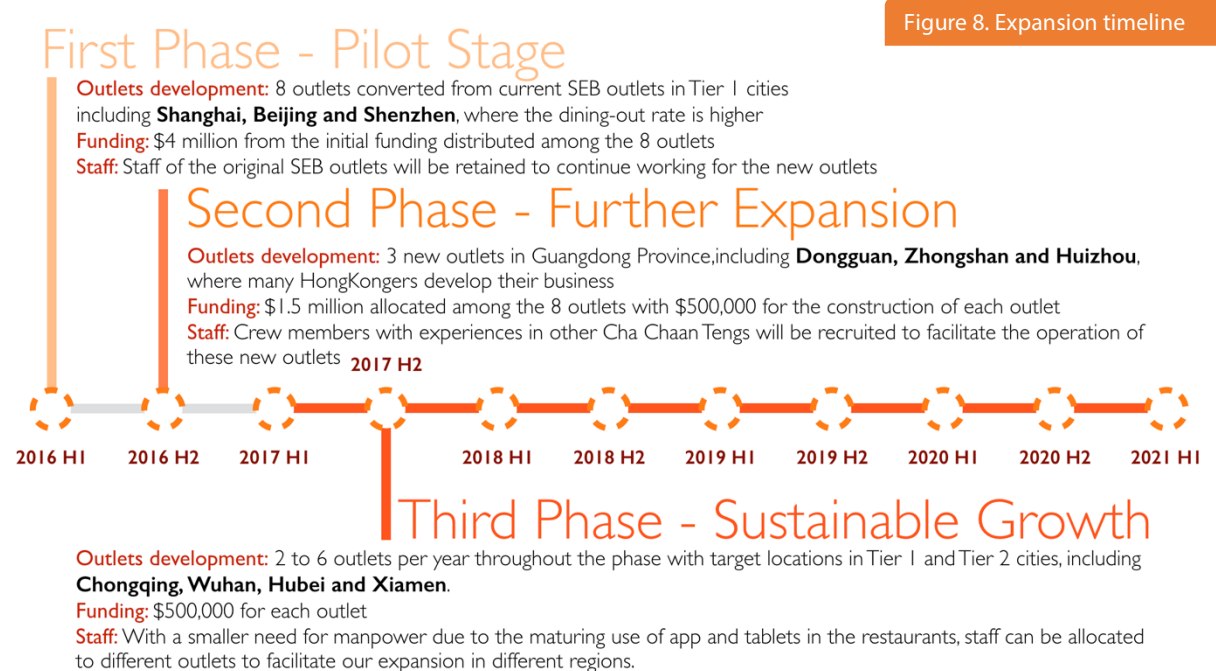


### 7.1.1 Brand Name Building

We would like to maintain the good reputation of SEL, as well as to build up SET's own brand name through our provision of outstanding catering services. We will ensure a high quality of food and dishes, and also focus on staff training to provide excellent services to our customers.

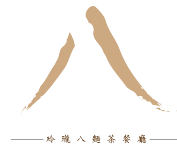
### 7.1.2 Expansion

The 3 phases of expansion are as follows:



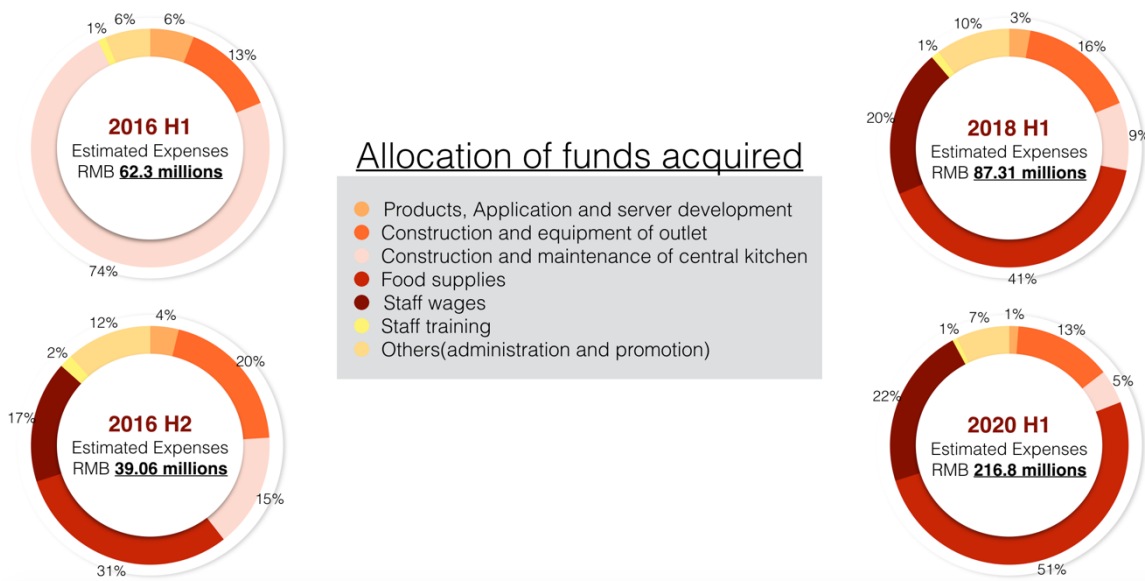
### 7.1.3 Efficient Operation

The development of our app will start in the first phase. Testing will be conducted to perfect our application. The modified version of the mobile application will be published for customers' use as our new outlets begin operating in the second phase. Together with regular promotional strategies throughout the third phase, the table turnover rate and seat utilization rate can be increased.



**7.2.1 Cash Outflow Projection (Appendix 3)**

Figure 9. Cash outflow projection



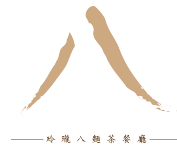
In general, 40% to 45% of our annual revenue would be retained for meeting our cost of sales, mainly wage payment and food supplies, for the coming year.

Focusing on the Central Kitchen during Start-Up

At the beginning of our business, most of our cash outflow (74% in 2016 H1) will be spent on setting up the central kitchen. A small proportion of funds will be allocated for maintenance of the kitchen every year.

Decreasing Proportion of Wage Payment

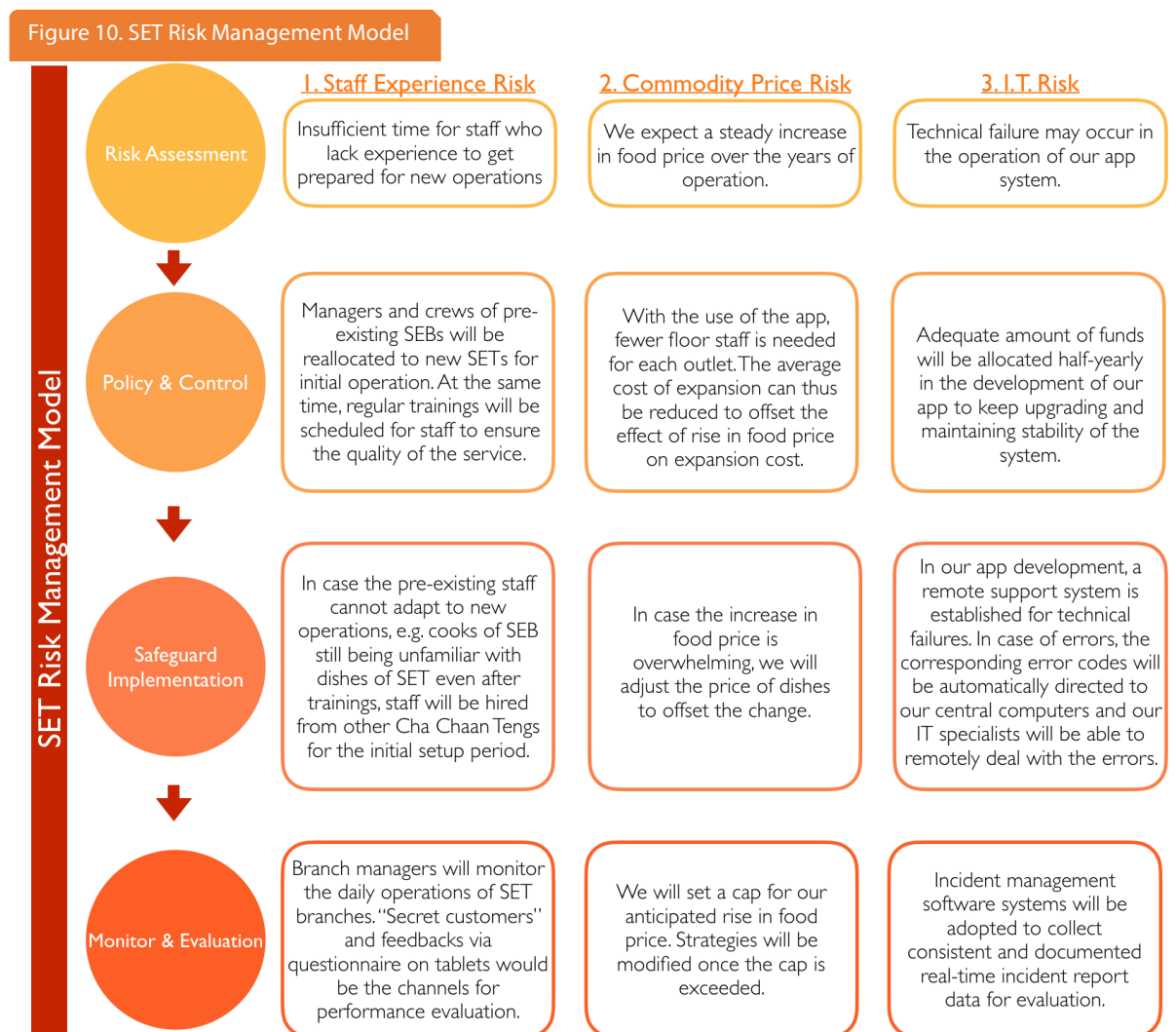
Despite the expansion of our Cha Chaan Tengs, the amount spent on staff wages would decrease over the years as the utilization of our app would lower our need for floor staff. As our restaurants expands, existing staff will be relocated to new outlets. We will refrain from hiring new staff in the long term to cut down the spending on wage payments.

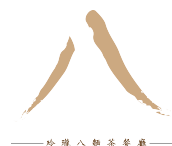


We are also expecting a stable increase in food index over the years. **(Appendix 2)**  
 Therefore, the proportion of funding channeled for the purchase of food supplies will increase.

### 7.2.2 SET Risk Management Model

Our Risk Management Model below is derived from the conventional 4-step cycle of risk management, namely risk assessment, policy and control, safeguard implementation and monitor and evaluation.





## 8 Funding Arrangement

Each year, a “target funding acquired” level has to be met, which is 80% of the total estimated expenses for the next year. The ultimate goal is not only to cover operating expenses, but also to secure a sufficient fund in case of adversities.

(in millions of RMB)	2016 E H1	2016 E H2	2017 E H1	2017 E H2	2018 E H1	2018 E H2	2019 E H1	2019 E H2	2020 E H1	2020 E H2	2021 E H1
Target funding acquired for next financial period	31.25	41.31	51.7	69.85	86.02	115.81	133.79	173.5	190.43	235.22	271.22
Cash remaining from previous financial period	0	74.7	76.38	85.81	98.03	119.62	139.64	181.9	246.27	326.36	429.05
Sales revenue collected <sup>11</sup>	0	36.74	57.07	72.85	104.9	133.55	193.02	231.61	296.96	340.73	441.01
Cash arrangement	50	10	10	10	10	0	0	0	0	0	0
Long-term bank loans (3-5 years)	30	0	0	0	0	0	0	0	0	0	0
Issuance of right share (New share)	57	0	0	0	0	0	0	0	0	0	0
Loans repayment	0	(6)	(6)	(6)	(6)	(6)	(6)	0	0	0	0
Total funding acquired	137	115.44	137.45	162.65	206.93	247.17	326.66	413.51	543.23	667.09	870.06
Expenses of the present financial period	62.3	39.06	51.64	64.62	87.31	107.53	144.76	167.24	216.87	238.04	297.23
Cash remaining	74.7	76.38	85.81	98.03	119.62	139.64	181.9	246.27	326.36	429.05	572.83

Table 2. 5-year funding arrangement of SET

### 8.1 Cash Arrangement from Parent Company

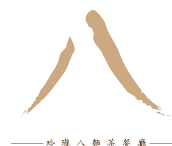
In view of the company’s working capital ratio and the cashflow-to-debt ratio for the previous 2 years, there is capability to invest more in light of the excess idle cash we hold. Thus, ¥50M of funds will be allocated from our parent company for the first year, which will be used as the main support of our operating expenses. Thereafter, ¥10M will be channelled to the new business from the parent company each year.

### 8.2 Bank Loans (2016 H1)

Considering that the debt-to-equity ratio is much lower than that of the acceptable level, there is still potential to raise debts. Hence, funds will be obtained from long-term bank loans with the amount of ¥30M RMB for the first year. This is to help with operations during the initial setup period.

<sup>11</sup> 90% of the sales revenue is assumed to be collected within each period

## 8.3 Issuance of New Shares (2016 H1)



10 million new shares will be issued at a target price of HKD\$6.5, which total in ¥57M RMB, to finance expenses in later stages and to further secure cash flow.

## 9 Performance Forecast

Performance Forecast	2016 E H1	2016 E H2	2017 E H1	2017 E H2	2018 E H1	2018 E H2	2019 E H1	2019 E H2	2020 E H1	2020 E H2	2021 E H1
<b>Assumption</b>											
Casual Dining Market <sup>12</sup>	100	100	106	106	115.67	115.67	126.01	126.01	137.12	137.12	149.13
Food Price Level	100	100	101.5	100.49	101.99	102.5	104.55	104.03	106.11	105.58	107.16
No. of outlets	0	8	11	13	16	20	25	30	35	39	45
No. of outlets under construction	8	3	2	3	4	5	5	5	4	6	0
Per capita expenditure <sup>13</sup>	0	50	50.75	50.24	51	51.25	52.28	52.01	53.06	52.79	53.58
Table Turnover Rate	0	5.4	5.4	5.71	5.94	6.02	6.08	6.11	6.14	6.17	6.18
Seat Utilization Ratio	0	0.6	0.63	0.65	0.66	0.66	0.68	0.68	0.67	0.69	0.7
Estimated Revenue (in millions) <sup>14</sup>		40.82	63.41	80.94	116.55	148.39	214.47	257.34	329.96	378.59	490.01

Table 3. 5-year performance forecast of SET

Expanding over the span of 5 years, we expect the total number of outlets in mainland to increase to 45. With efficiency enhanced by our app system, we forecast the table turnover rate to rise from 5.4 to 6.18. Our promotion campaigns making use of social media and celebrity promotion would also raise our seat utilization ratio from 0.6 to 0.7.

(in millions of RMB)	2016 E H1	2016 E H2	2017 E H1	2017 E H2	2018 E H1	2018 E H2	2019 E H1	2019 E H2	2020 E H1	2020 E H2	2021 E H1
Sales Revenue	0	40.82	63.41	80.94	116.55	148.39	214.47	257.34	329.96	378.59	490.01
Cost of sales(-)	0	18.37	28.35	37.01	52.94	68.93	98.97	118.75	158.21	177.5	233.41
Gross profit	0	22.45	35.06	43.93	63.61	79.46	115.5	138.59	171.75	201.09	256.6
Operating costs(-)	62.30	20.69	23.29	27.61	34.37	38.60	45.79	48.49	58.66	60.54	63.82
Operating profit	-	1.76	11.77	16.32	29.24	40.86	69.71	90.10	113.09	140.55	195.98
Taxation(30.5%)	-	0.54	3.59	4.98	8.92	12.46	21.26	27.48	34.49	42.87	59.77
Profit after Taxation	-62.30	1.22	8.18	11.34	20.32	28.4	48.45	62.62	78.60	97.68	133.98
Profit Margin	-	2.99%	12.90%	14.01%	17.43%	19.14%	22.59%	24.33%	23.82%	25.80%	27.34%

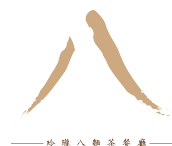
Table 4. 5-year performance forecast of SET (continue)

We will maintain the cost of sales at around 45% of the revenue. We project that the profit (after tax<sup>15</sup>) will accumulate to cover the initial capital after 3 years. It will double up after 5 years to bring positive impact to the company's profit margin.

<sup>12</sup> We assume that SET captures at least 40% of the growth of "Casual Dining Market"

<sup>13</sup> The per capita expenditure is adjusted according to the change in food price level

<sup>14</sup> The sales revenue is computed as a product of seats number, per capita expenditure, table turnover ratio, seat utilization ratio and the relative change in casual dining market.



## 10 Ethical Scenario

### 10.1 Ethical Issue <sup>16</sup>

#### 10.1.1 Conflict of Interest

Conflict of interest arises as Kim Ho has selected the asset management company in which her husband - an immediate family member of hers - acts as the Head of the Corporate Financial Department, as a vendor for SEL. He can benefit financially from the transaction and familiarity threat is created. Under the objectivity principle, safeguards should be applied. Kim Ho should disclose the nature of the conflict to relevant parties to obtain their consent. A third party should be informed to evaluate whether the compliance of the fundamental principles is compromised.

#### 10.1.2 Bias

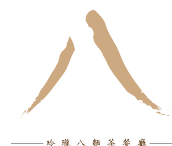
Kim Ho is obliged not to allow bias to override her professional and business judgements under the principle of objectivity. SEL's transaction with the asset management company under the agreement of Kim Ho is suspected to be unnecessary. The underwriting commission of 3% of the total amount of debts raised is unreasonably higher than the normal market level of 1%. Her husband's company can benefit from such transaction. Thus, a biased decision is suspected.

#### 10.1.3 Undue Influence

Jerry Wong is under the undue influence of Kim Ho as his annual performance is reviewed by her. He is obliged to take actions against Kim Ho to comply with the principle of integrity and objectivity as stated by the Code. He should not compromise his business judgement due to the undue influence of Kim Ho.

<sup>15</sup> Taxation includes 25% income tax rate and 5.5% turnover tax rate

<sup>16</sup> HKICPA. Code of Ethics for Professional accountants. Sections: 100, 110, 120, 300, 310. [http://app1.hkicpa.org.hk/ebook/HKSA\\_Members\\_Handbook\\_Master/volumel/COErevised.pdf](http://app1.hkicpa.org.hk/ebook/HKSA_Members_Handbook_Master/volumel/COErevised.pdf)



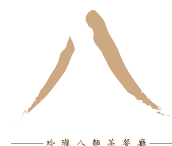
## 10.2 Actions

Jerry Wong should first remind Kim Ho about the ethical issues involved, and see if she would make any adjustments. Whether Kim Ho can provide a valid justification for her judgements or not, the case should be reported to David Chan, the CEO of SEL, as he is at a higher management position. The Board of Directors may need to be consulted to oversee the situation and arrange safeguards for the conflicts. During the process, Jerry Wong should remain alert to the fundamental principle of confidentiality and disclose relevant information only to appropriate parties.

## 11 Conclusion

As SEL's business begins to reach its optimal point in Hong Kong, it is essential for the company to look for new development opportunities. With an optimistic prospect for the Cha Chaan Teng industry in China, it is surely beneficial for our company to invest in SET. With a business model that comprehensively cater for the consumer trends while providing catering service of high quality and safety as facilitated by the use of our app, the proposed SET chain has high potential to prosper in the Chinese catering market.

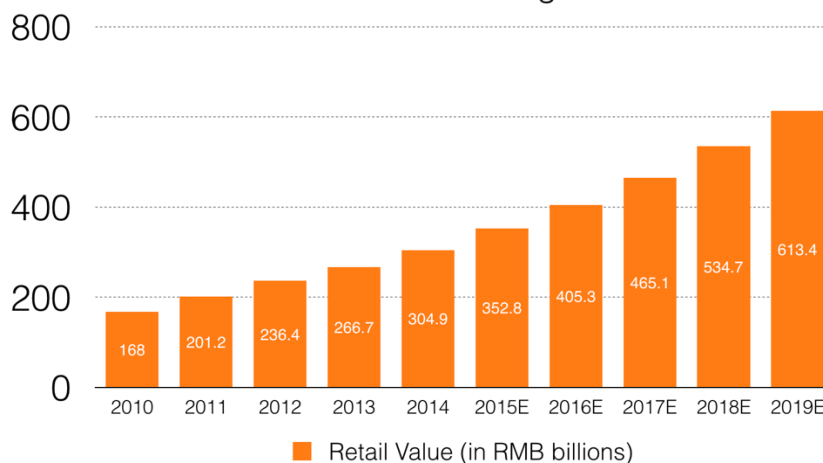




# Appendix

## Appendix 1

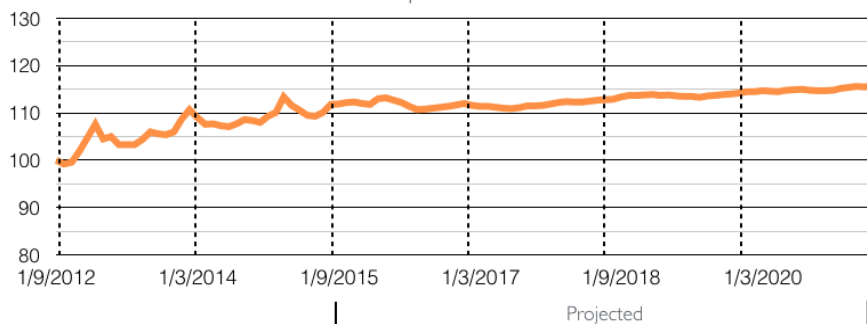
Market Size of Casual Dining Market in China



## Appendix 2

Food price index in China

Base period: 1/9/2012



\*Projection based on Food CPI from National Bureau of Statistics of China

## Appendix 3

Detailed Cash Flow Projection

Investment Plan (in millions of RMB)	2016 E H1	2016 E H2	2017 E H1	2017 E H2	2018 E H1	2018 E H2	2019 E H1	2019 E H2	2020 E H1	2020 E H2	2021 E H1
<b>Assumption</b>											
Annual Inflation Rate	100.00	100.00	101.60	101.60	103.23	103.23	104.88	104.88	106.56	106.56	108.26
Cost of sales		18.37	28.35	37.01	52.94	68.93	98.97	118.75	158.21	177.50	233.41
Food supplies (%)		65	66	67	67	68	69	69	70	70	71
Staff(%)		35	34	33	33	32	31	31	30	30	29
<b>Estimated cost of sales</b>		<b>18.37</b>	<b>28.35</b>	<b>37.01</b>	<b>52.94</b>	<b>68.93</b>	<b>98.97</b>	<b>118.75</b>	<b>158.21</b>	<b>177.50</b>	<b>233.41</b>
No. of outlets	0	8	11	13	16	20	25	30	35	39	45
No. of outlets in construction/Renovation	8	3	2	3	4	5	5	4	6	5	5
Total rental expenses and construction fee	4.00	6.30	7.72	9.45	11.97	14.97	18.35	20.98	25.57	27.60	29.23
Administrative expenses	3.30	4.09	4.80	5.84	7.33	9.05	10.91	12.22	14.79	15.68	16.29
Equipment	4.00	1.50	1.01	1.52	2.06	2.58	2.62	2.10	3.20	2.66	3.20
Additional promotion expenses	0.50	0.50	0.50	1.00	1.50	1.00	1.00	1.00	1.00	1.00	1.00
Construction of central kitchen	42.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Maintenance of central kitchen	4.00	6.00	6.00	7.00	8.00	8.00	9.00	9.00	10.00	10.00	10.50
Training	0.75	0.75	1.00	1.00	1.00	1.20	1.20	1.20	1.40	1.40	1.40
Products development	0.75	0.75	0.75	1.00	1.00	1.00	1.20	1.20	1.20	1.40	1.40
Application and server development	3.00	0.80	1.50	0.80	1.50	0.80	1.50	0.80	1.50	0.80	0.80
<b>Operating expenses</b>	<b>62.30</b>	<b>20.69</b>	<b>23.29</b>	<b>27.61</b>	<b>34.37</b>	<b>38.60</b>	<b>45.79</b>	<b>48.49</b>	<b>58.66</b>	<b>60.54</b>	<b>63.82</b>
<b>Total estimated expenses</b>	<b>62.3</b>	<b>39.06</b>	<b>51.64</b>	<b>64.62</b>	<b>87.31</b>	<b>107.53</b>	<b>144.76</b>	<b>167.24</b>	<b>216.87</b>	<b>238.04</b>	<b>297.23</b>

## Appendix 4

## Catering market retail value of major provinces and cities

Location	Retail Value (in RMB 100 millions)	Annual Growth Rate in 2014
<b>Guangdong</b> (includes <b>Shenzhen</b> , <b>Dongguan</b> , <b>Zhongshan</b> and <b>Huizhou</b> )	2836.6	8.30%
Henan	1812.4	13.10%
Zhejiang	1714.1	10.10%
Sichuan (includes <b>Wuhan</b> )	1671	10.10%
Hunan	1214.5	10.90%
Fujian (includes <b>Xiamen</b> )	1039.7	8.30%
<b>Shanghai</b>	837.2	5.70%
<b>Chongqing</b>	756.8	13.40%
Tianjin	748.6	11.40%
<b>Beijing</b>	713	-0.80%

\*SET's target locations in **Bold**.(mentioned in Figure.8)

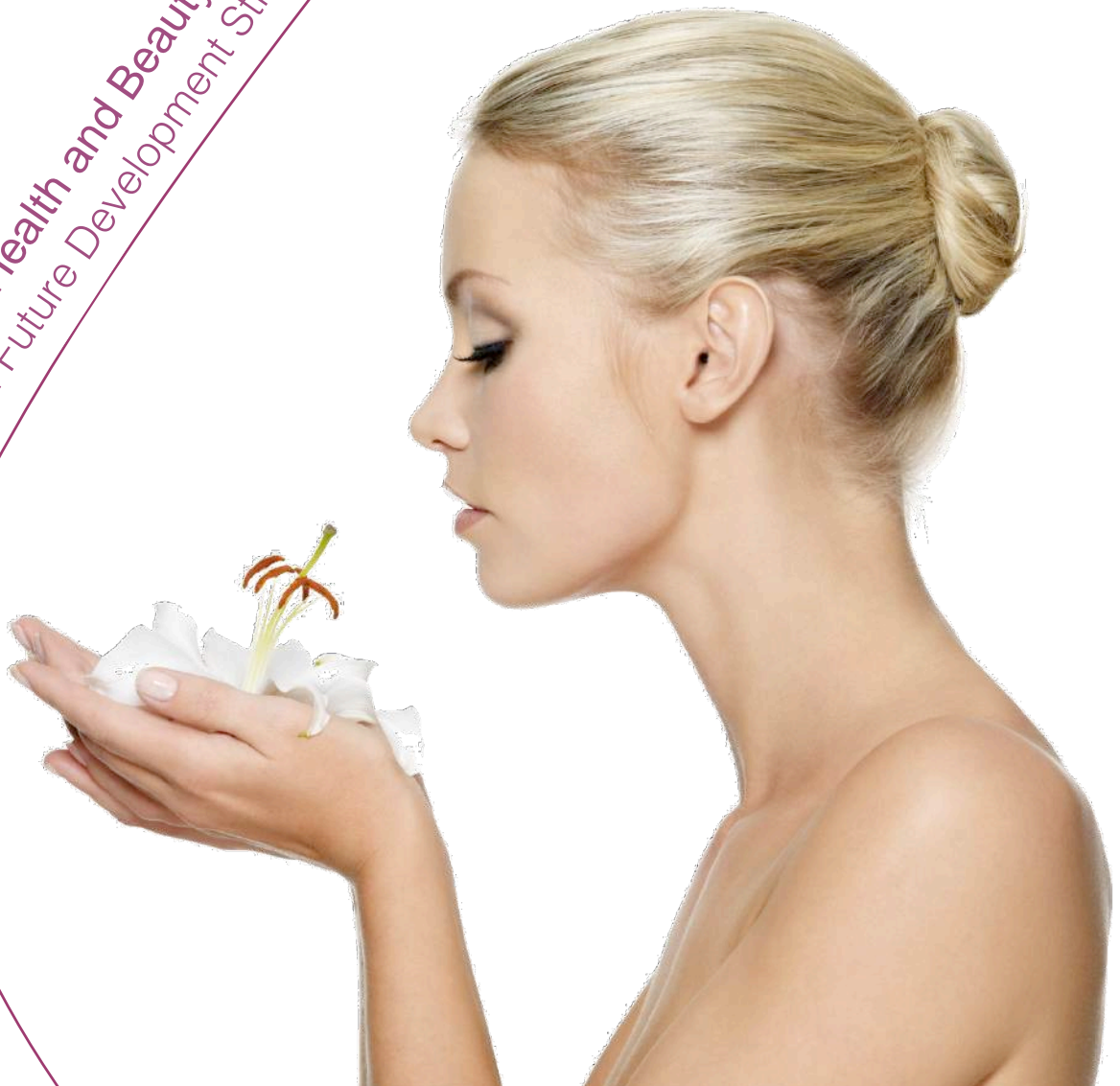
\*Data retrieved from <http://health.takungpao.com.hk/hot/q/2015/0215/2923043.htm>

The End

**2014 QP Case Analysis Competition (HK)**

**Best Written Report**

*Tango Health and Beauty Limited  
Vision and Future Development Strategy Report*



# Expansion through Integration

## TABLE OF CONTENT

<b>1. EXECUTIVE SUMMARY</b>	<b>1</b>
<b>2. VISION &amp; MISSION</b>	<b>1</b>
<b>3. SITUATION ANALYSIS</b>	<b>2</b>
3.1. Market Overview	2
3.2. 3C Analysis: Company, Competitors and Customers	2
3.3. Prioritization of Issues	3
<b>4. FUTURE STRATEGY</b>	<b>4</b>
4.1. Our Business – MOStrategy	
4.1.1. Mainland China Expansion	4
4.1.2. Optimization of Beauty and Fitness Division in Hong Kong	5
4.1.3. Supply Chain Management	5
4.1.4. Tango's Sustainable Business Growth	5
4.2. Our Customers – Tango Club	
4.2.1. Tango Point Payment System	6
4.2.2. Tango Club Membership Scheme	6
4.2.3. iTango	6
4.3. Our Employees – Tango Academy	
4.3.1. Sponsorship arrange for recruiting potential talents	7
4.3.2. Incentive scheme for retaining current employees	7
4.4. Summary of Strategies	8
<b>5. IMPLEMENTATION</b>	<b>9</b>
5.1. Timeline	9
5.2. Enterprise Risk Mitigation	9
<b>6. FINANCIAL ANALYSIS</b>	<b>10</b>
6.1. Assumptions	10
6.1.1. Operational Assumptions	10
6.1.2. Financial Assumptions	10
6.1.3. Industry Composition	10
6.2. Performance Evaluation	11
6.3. Return on Investment	12
6.4. Financial Statements Forecast	13
<b>7. CORPORATE GOVERNANCE</b>	<b>15</b>
7.1. The Board of Directors	15
7.2. Financial Risk Management – Currency Exposure	15
7.3. Accountability and Audit	16
<b>8. EVALUATION ON EXTERNAL ADVISOR'S PROPOSAL</b>	<b>17</b>
8.1. Overview	17
8.2. Legal Perspective	17
8.3. Ethical Perspective	18
8.4. Suggestions regarding SlimFit	19
<b>9. CONCLUSION</b>	<b>20</b>

## 1. EXECUTIVE SUMMARY

This report intends to evaluate Tango's current situation and assess the market opportunities, which exist for it to successfully outperform competitors. Existing challenges are identified and prioritized based on importance and urgency, whereas three potential strategies will be discussed in tackling these issues and helping Tango to become the most expedient option for customers. The implementation plan and financial impact of these strategies will be explicated through different assumptions and financial models. Certainly, the project will involve some risks but contingency plan will be carried out to remedy the situation. Moreover, Tango's corporate governance and the ethical issue regarding SlimFit will be revealed, which indicates that some internal policies can be enhanced to further improving the organizational structure of Tango.

## 2. VISION & MISSION

### Vision

Tango strives to be Asia's leading health and beauty player. We rest on the skills of our employees to provide quality customer service and maximize shareholder value.

### Mission

- Offer comprehensive and quality services and products to our customers
- Inspire our employees to be the best they can be with quality training and support
- Nurture a winning network of customers and suppliers
- Be a highly effective and fast-moving organization
- Maximize long-term return to shareholders while being mindful of our overall responsibilities

### 3. SITUATION ANALYSIS

#### 3.1. Market Overview

In 2012, the market size of Asia-Pacific in the beauty and personal care industry has grown by 5.2%<sup>1</sup>. Owing to the rising income and awareness of personal appearance among Chinese consumers, the PRC is of the highest growth potential<sup>2</sup>. Brisk demand over Beauty and Facial (B&F) treatment and rise of medical beauty are observed<sup>3</sup>. In addition, there is a rising need of qualified manpower<sup>4</sup>. Another two new trends worth mentioning are value chain consolidation and mobile penetration<sup>5</sup>.

#### 3.2. 3C Analysis: Company, Competitors and Customers

##### Company

Currently, 83% of Tango's revenue originates from Hong Kong (HK), while Singapore (SG) and PRC market account for 13% and 4% respectively.



Fig. 1 SWOT Analysis

In view of the growing PRC market and brisk demand of qualified manpower (Fig. 1), Tango is considering 3 major strategies. With our strong cash position (Section 6.2.), these strategies are believed to be effective and feasible.

<sup>1</sup> Warangkana Anuwong. (2013). *In-Cosmetics Asia 2013 - Beauty & Personal Care: What the Future Holds*. Retrieved from <http://blog.euromonitor.com/2013/11/in-cos-asia-2013-beauty-and-personal-care-what-the-future-holds.html>

<sup>2</sup> Euromonitor International. (2014, May). *Beauty and Personal Care in China*. Retrieved from <http://www.euromonitor.com/beauty-and-personal-care-in-china/report>

<sup>3</sup> The American Society of Plastic Surgeons. (2013, Oct 28). *Plastic Surgeons Should Prepare for 'Globalization' of Cosmetic Surgery, Says Article in PRS Global Open*. Retrieved from <http://www.plasticsurgery.org/news/past-press-releases/2013-archives/rise-of-medical-tourism-shows-impact-on-cosmetic-surgery-market.html>

<sup>4</sup> Education Bureau. (n.d.). Beauty Industry. Retrieved from [http://www.hkqf.gov.hk/guie/SCS\\_ind\\_Beauty.asp](http://www.hkqf.gov.hk/guie/SCS_ind_Beauty.asp)

<sup>5</sup> Reenita Das. (2014, Jan 31). *Top 4 Healthcare Predictions for 2014 - Asia*. Retrieved from <http://www.forbes.com/sites/reenitadas/2014/01/31/top-4-healthcare-predictions-for-2014-for-asia/>

## Competitors

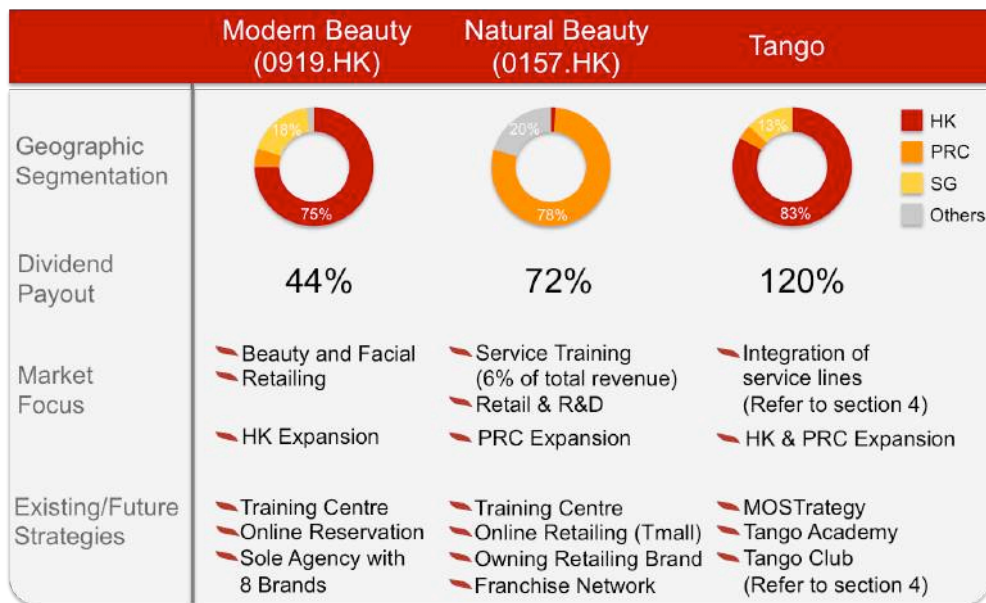


Fig. 2 Comparison with Major Competitors

## Customers

In 2014, Tango's existing markets (i.e. HK, PRC, SG) recorded GDP growth ranging from 2.9% to 7.7%<sup>6</sup>. Due to the changing lifestyles and rising disposable income in these regions, there are higher demands over beauty and health services from wealthy families and professional women. In addition, beauty and healthcare products have received attentions from customers in all regions. However, as for the Slimming and Fitness (S&F) division, customers in HK and SG begin to lose interest.

### 3.3. Prioritization of Issues

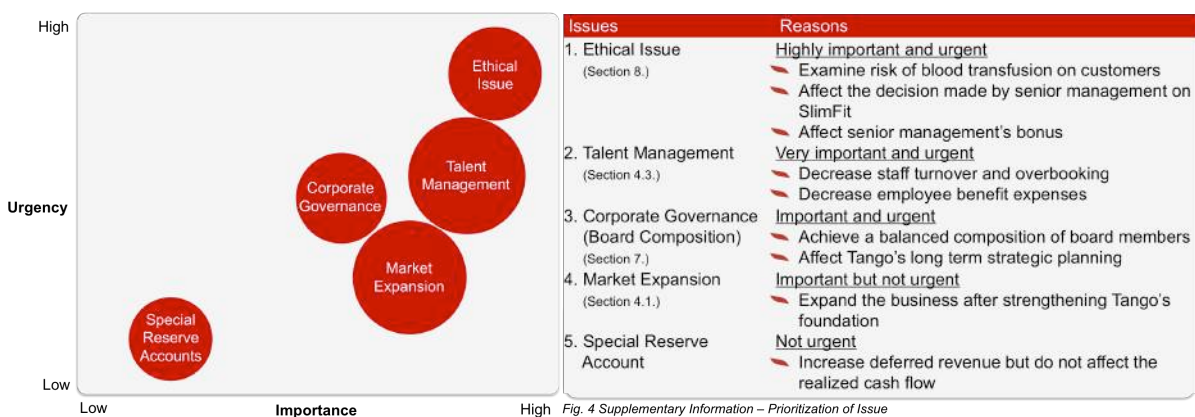


Fig. 3 Prioritization chart

Fig. 4 Supplementary Information – Prioritization of Issue

<sup>6</sup> The World Bank. (n.d.). GDP Growth (Annual %). Retrieved from <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG>



## 4. FUTURE STRATEGY

### 4.1. Our Business – MOSTrategy

#### 4.1.1. Mainland China Expansion

At present, our revenue from the PRC is relatively low (i.e. 4%). In light of China's growth potential, Tango will:

- **Expand and refurbish our flagship store in Shanghai:** The flagship store will be a one-stop beauty center with Chinese contemporary design in presenting an up-market image and providing a one-stop shopping experience to customers.
- **Integrate Traditional Chinese Medicine (TCM) to our service:** TCM beauty and health services as well as products will be offered in catering to Chinese consumers' preference over herbal and traditional products<sup>7</sup>.
- **Extend reach to lower tier cities through Tmall.com and social websites:** In view of the growing online retail sales in China beauty industry<sup>8</sup>, a Tmall store will be set up to reach a wider Chinese audience. Tmall is responsible for 45% of Internet retailing value in China<sup>9</sup>, featuring authentic and top-quality brands. Tango will also increase its online presence by developing mobile app (Section 4.2.3.) and making use of social websites, for example, Sina Weibo and WeChat for promotion.
- **Franchise S&F centers in PRC in the long run:** In light of the growing health consciousness in PRC and the weight-loss trend among Chinese women<sup>10</sup>, S&F centers will be franchised in the long run, after the launch of TPPS (Section 4.2.1.) and establishment of flagship store.

<sup>7</sup> Euromonitor International. (2014, Jul). *Herbal/Traditional Products in HK, China*. Retrieved from <http://www.euromonitor.com/herbal-traditional-products-in-hong-kong-china/report>

<sup>8</sup> Intertek. (n.d.). *Intertek Taobao Store Offers Quality Assurance for Business to Win in E-commerce Market*. Retrieved from <http://www.intertek.com/consumer/news/v105-intertek-taobao-offers-qa-for-business-e-commerce/>

<sup>9</sup> Euromonitor International. (2014, Mar). *Internet Retailing in China*. Retrieved from <http://www.euromonitor.com/internet-retailing-in-china/report>

<sup>10</sup> International Markets Bureau of the Government of Canada. (2011, Feb). *Health and Wellness Trends in China* (ISSN 1920-6615 Market Indicator Report). Retrieved from <http://www.ats-sea.agr.gc.ca/asi/5736-eng.htm>

#### **4.1.2. Optimization of Beauty and Facial Division in Hong Kong**

In view of the brisk demand for B&F treatments, Tango will:

- Open four beauty clinics in two years to achieve performance optimization
- Establish Tango Academy (Section 4.3.) to improve employee productivity and efficiency

#### **4.1.3. Supply Chain Management**

To effectively manage flow of goods, Tango will

- Initiate sole agency relationships with existing suppliers to ensure supply stability and quality
- Collaborate with The Shahnaz Husain Group, one of the world's leading herbal suppliers from India, who is currently seeking distributors from HK and Mainland, for our herbal supply in PRC expansion
- Distribute products in online and offline stores (i.e. Tmall and outlets)
- Implement Enterprise Resource Planning (ERP) System to facilitate information flow among all business functions and manage connections with outside suppliers and distributors, particularly service delivery, marketing and sales, inventory management and shipping payment

#### **4.1.4. Tango's Sustainable Business Growth**

Considering the rise of medical beauty, Tango leverages its R&D expertise on medical beauty industry by investing in its in-house laboratory to further a growth in the coming decade. Additional cash flows generated from applied patents can be used to further finance R&D projects.

## 4.2. Our Customers – Tango Club

To gain insight into existing and potential customers behavior, Tango Club along with iTango will be launched to strengthen our brand loyalty and to acquire big data.

### 4.2.1. Tango Point Payment System (TPPS)

Tango Points (TPs) will be used for purchase under TPPS, whereas customers can add TPs to membership cards by cash to credit card. TPs can be used across service lines and regions (except online retailing), providing flexibility to the growing number of high-end customers who often travel between PRC and HK<sup>11</sup>. Extra TPs will be rewarded for bulk purchases. In addition, TPs will be withheld for reserving service package and written off when service is performed.

### 4.2.2 Tango Club Membership Scheme

Customers with an annual spending of \$100,000 will be entitled to be our “Centurion” member and be rewarded with hard and soft exclusive benefits, including experiencing private previews of favourite cosmetic brands, receiving invitations to exclusive events, which found to be effective among Asian consumers<sup>12</sup>.

### 4.2.3 iTango

iTango will be established in view of the digital trend among young and high-end consumers. It allows members to review Tango’s products and services as well as checking TPs balance, schedules and bookings. To minimize the associated cost, Software as a Service (SaaS) will be utilized by outsourcing to Salesforce.<sup>13</sup>

---

<sup>11</sup> KPMG International. (2013, Jan). *Global Reach of China Luxury*. Retrieved from <https://www.kpmg.com/FR/fr/IssuesAndInsights/ArticlesPublications/Documents/global-reach-china-luxury.pdf>

<sup>12</sup> Nielsen Company. (2013, Feb 12). Free and Easy: Loyalty Program Benefits that Matter Most Globally. Retrieved from <http://www.nielsen.com/us/en/insights/news/2013/free-and-easy-loyalty-program-benefits-that-matter-most-globally.html>

<sup>13</sup> Salesforce Inc. (2014). *Pricing - CRM customer service solutions*. Retrieved from <http://www.salesforce.com/crm/editions-pricing-service.jsp>.

### 4.3. Our Employees – Tango Academy

In view of the rising need of qualified manpower, Tango Academy will be introduced for potential talents development and employee retention, which comprises:

#### 4.3.1. Sponsorship arrangement for recruiting potential talents

Tango Academy offers ITEC training programs in collaboration with HK Professional Beauty Therapy & Hairdressing Association (HKBHA) for potential talents. Upon program completion, participants will be offered a two-year employment contract. Half of the program fees will be reimbursed as scholarship subsequent to acceptance of offer.

#### 4.3.2. Incentive scheme for retaining current employees

To save hiring and training costs associated with turnover, a series of employee incentive measures will be adopted to lift employee moral and retain valuable staff, which comprises:

- **Staff Discounts:** offering discounted prices on Tango's products and services to enhance employees' sense of belonging to company<sup>14</sup>
- **On-the-job training:** providing professional trainings and free seminars to maintain employee competencies<sup>15</sup>
- **Career advising:** taking interest in the future path of employees' career through mentoring and coaching, which found to be highly valued by employees<sup>16</sup>
- **Stock option compensation:** granting employee stock option as part of the employees' remuneration to align their individual economic interest with company performance

<sup>14</sup> Entrepreneur.com. (2002, Oct 23). *Low-Cost Benefits That'll Make Your Employees Happy*. Entrepreneur.com. Retrieved from <http://www.entrepreneur.com/article/56492>

<sup>15</sup> Nadia Goodman. (2012, Jan 9). *Methods for Building Employee Loyalty*. Entrepreneur.com. Retrieved from <http://www.entrepreneur.com/article/225432>

<sup>16</sup> Victor Lipman. (2012, Mar 18). *5 Easy Ways To Motivate - And Demotivate – Employees*. Forbes. Retrieved from <http://www.forbes.com/sites/victorlipman/2013/03/18/5-easy-ways-to-motivate-and-demotivate-employees/>

## 4.4. Summary of Strategies

All strategies are evaluated to be suitable, feasible and acceptable, highlights are as follows:

	Suitability	Feasibility	Acceptability
PRC Expansion	Boosting sales by expanding in the PRC market in view of its greatest growth potential	<ul style="list-style-type: none"> <li>➤ Capital funded with our strong cash position</li> <li>➤ Existing outlets and reputation in PRC</li> <li>➤ Inter-dependable with the implementation of TPPS and launch of iTango</li> <li>➤ Probable of insufficient human capital</li> </ul>	<ul style="list-style-type: none"> <li>➤ Less dividends will be declared in short term to finance the expansion</li> <li>➤ Exposing to Infrastructural growth risk (Section 5.2.)</li> </ul>
B&F in HK Optimization	Maximizing profit by optimizing the B&F division considering its brisk demand in HK	<ul style="list-style-type: none"> <li>➤ Capital funded with our strong cash position</li> </ul>	<ul style="list-style-type: none"> <li>➤ Probable of insufficient human capital (whereas Tango Academy helps)</li> </ul>
Supply Chain Management	Improving operational efficiency by establishing sole agency relationship and partnership	<ul style="list-style-type: none"> <li>➤ The Indian supplier is ready to enter the PRC market</li> <li>➤ Close geographical proximity</li> </ul>	<ul style="list-style-type: none"> <li>➤ Ensuring supply stability and quality</li> <li>➤ Extending customer reach through wider range of distribution channels</li> </ul>
Sustainable Business Growth	Ensuring sustainable business growth by leveraging R&D expertise considering the rise of medical beauty	<ul style="list-style-type: none"> <li>➤ Capital funded with our strong cash position</li> <li>➤ Existing in-house R&amp;D</li> <li>➤ Need of a R&amp;D assistant</li> </ul>	<ul style="list-style-type: none"> <li>➤ Risk of emulation but can be eliminated through patent protection</li> <li>➤ Return on R&amp;D can be very high</li> </ul>
Tango Club	Capturing the thriving digital trend	<ul style="list-style-type: none"> <li>➤ Lower cost and more support by outsourcing</li> <li>➤ Technically feasible with existing payment system</li> </ul>	<ul style="list-style-type: none"> <li>➤ Customer accustomization</li> </ul>
Tango Academy	Resolving the problem of lacking qualified manpower through sponsorship agreement and incentive scheme	<ul style="list-style-type: none"> <li>➤ Relatively low cost</li> <li>➤ Location available, i.e. head office</li> </ul>	<ul style="list-style-type: none"> <li>➤ Trained potential talents may be poached by other companies</li> </ul>

Fig. 5 Summary of Strategies

## 5. IMPLEMENTATION

### 5.1. Timeline



Fig. 6 Project Implementation Timeline

### 5.2. Enterprise Risk Mitigation

#### 1. Infrastructural Risks of PRC Expansion

While Tango is taking forward to expand its business in PRC (Section 4.1.1.), it is exposed to infrastructural risks including inexperienced staff and weak supply chain management. In light of this, Tango Academy (Section 4.3.) will be introduced for training potential talents and retaining existing competent staff. Supply chain management will also be optimized (Section 4.1.3.) by implementing ERP System and strengthening supplier and distributor relationship.

#### 2. Information Technology (IT) Risk of Tango Club Membership Scheme

IT Security is a risk associated with Tango Club Membership Scheme due to the confidential customer information stored in our database. Off-site disk mirroring and AES encryption are used to secure the storage of data from risk of server malfunction, physical theft or any instances where data has potential of being lost.

#### 3. Health Risk of Blood Transfusion Treatment

There is still health risk associated with blood transfusion<sup>17</sup>. More trials have to be conducted before the approval of blood transfusion for use in all clinics.

<sup>17</sup> American Cancer Society. (2013, Oct). Possible risks of blood transfusion. Retrieved from: <http://www.cancer.org/treatment/treatmentsandsideeffects/treatmenttypes/bloodproductdonationandtransfusion/blood-product-donation-and-transfusion-possible-transfusion-risks>



## 6. FINANCIAL ANALYSIS

### 6.1. Assumptions

6.1.1. Operational Assumptions <sup>18</sup>	2014E	2015E	2016E	2017E	2018E	...	2023E
<b>i. Real growth rate</b>							
Mainland China <sup>19 20</sup>	20.46%	20.51%	20.55%	19.71%	18.96%	...	19.53%
Hong Kong <sup>20 21</sup>	6.69%	6.71%	6.74%	6.56%	6.43%	...	6.41%
Singapore <sup>22</sup>	4.00%	4.00%	4.00%	4.00%	4.00%	...	4.00%
<b>ii. Occupancy cost growth rate<sup>23</sup></b>							
Mainland China	0.80%	0.80%	0.80%	0.80%	0.80%	...	0.80%
Hong Kong	3.20%	3.20%	3.20%	3.20%	3.20%	...	3.20%
Singapore	0.50%	0.50%	0.50%	0.50%	0.50%	...	0.50%
<b>iii. Floor area - by region (SqFt)</b>							
Mainland China	9,400	9,400	9,400	58,400	99,400	...	184,400
Hong Kong	210,050	220,050	230,050	230,050	230,050	...	230,050
Singapore	30,550	30,550	30,550	30,550	30,550	...	30,550
Total	250,000	260,000	270,000	319,000	360,000	...	445,000
<b>iv. Floor area - by new stores (SqFt)</b>							
Beauty and Facial		10,000	10,000				
Flagship store				20,000			
Slimming and Fitness (Franchise)				24,000	36,000	...	12,000
Tango Academy		5,000		5,000			

Fig. 7 Operational Assumptions

6.1.2. Financial Assumptions <sup>24</sup>	2014E	2015E	2016E	2017E	2018E	...	2023E
<b>i. Tax Rate (%)</b>							
Hong Kong	16.50%	16.50%	16.50%	16.50%	16.50%	...	16.50%
Mainland China	25%	25%	25%	25%	25%	...	25%
Singapore	17%	17%	17%	17%	17%	...	17%
Weighted average	16.91%	17.35%	17.35%	17.90%	18.02%	...	18.68%
<b>ii. Real WACC (%)<sup>25</sup></b>							
	4.72%	4.72%	4.72%	4.72%	4.72%	...	4.72%
<b>iii. Currency (HKDCNY=X)</b>							
	0.79	0.79	0.79	0.79	0.79		0.79

Fig. 8 Financial Assumptions

6.1.3. Industry Composition <sup>26</sup>			
	Stock Code	2013 Market Cap. (HK\$ Million)	%
Tango Health and Beauty Ltd	N/A	637.00	23.72%
Modern Beauty Salon Holdings Ltd	0919.HK	667.30	24.85%
Natural Beauty Bio-Technology Ltd	0157.HK	439.40	16.36%
Water Oasis Group Ltd	1161.HK	429.11	15.98%
Perfect Shape (PRC) Holdings Ltd	1830.HK	381.16	14.19%
Sau San Tong Holdings Ltd	8200.HK	131.67	4.90%
		HK\$2,685.64M	100.00%

Fig. 9 Industry Composition

<sup>18</sup> This analysis neglects the fluctuation in real estate price, and assumes that all new areas are rented for simplicity.

<sup>19</sup> Euromonitor International. (July 2014). *Country Report: Health and Wellness Tourism in China*. Retrieved from <http://www.euromonitor.com/health-and-wellness-tourism-in-china/report>

<sup>20</sup> HKEx. (2011, November 25). Information Pack - Beauty and Healthcare Industry Overview. Retrieved from <http://www.hkexnews.hk/reports/prelist/Documents/EWPOTOHL-20111125-09.pdf>

<sup>21</sup> Euromonitor International. (2013, October). *Country Report: Health and Wellness Tourism in HK, China*. Retrieved from <http://www.euromonitor.com/health-and-wellness-tourism-in-hong-kong-china/report>

<sup>22</sup> Census and Statistics Department, HKSAR. (2014, September 19). 2014/15 Household Expenditure Survey. Retrieved from [http://www.censtatd.gov.hk/press\\_release/pressReleaseDetail.jsp?charsetID=1&pressRID=3595](http://www.censtatd.gov.hk/press_release/pressReleaseDetail.jsp?charsetID=1&pressRID=3595)

<sup>23</sup> Jones Lang LaSalle. (2014, September). Retail Cities in Asia Pacific. Retrieved from <http://www.ap.jll.com/asia-pacific/en-gb/Research/retail-cities-in-asia-pacific-september-2014.pdf?c745527a-a3a4-4d94-9929-bdc1dd45952e>

<sup>24</sup> The financial projection is expressed explicitly in real terms, assuming that inflation of different regions does not create a huge impact to the financial position.

<sup>25</sup> Based on 2013 Figures: E=249, D=627, Re=8.85%, Rd=3.84%, Tc=19.64%

<sup>26</sup> A portfolio of HKEx-listed companies in the industry is generated to compare with the financial performance of Tango, neglecting the effect of non-listed companies.

## 6.2. Performance Evaluation

**1. Employee Benefit Expenses Control:** In 2013, Tango recorded a sales growth of 4.9%. However, 51.3% of sales were used to cover employee benefit expenses. With the reward programs in Tango Academy (Section 4.3.2.), we aim to increase the medium length of employment to 5 years as well as to boost labour productivity (Ratio: Return on Labour) to the industry average at 55.0% (Fig.10: R1).

**2. A Signal to B&F Expansion:** The overwhelming demand on B&F services indicates the 4.7% increase of deferred revenue over 2013. It helps secure our future revenue but at the same time, revealing the need to enhance our service capacity. By expanding our local B&F services by 12%, Tango will capture the market growth (Section 6.1.1.(i)) and introduce more customers. Moreover, decrease in deferred revenue over sales will improve Tango's financial leverage (Fig.10: R2).

**3. Strong Cash Position:** Tango held \$410M cash reserve in 2013 (47.3% of its total assets), which is mainly generated from the deferred revenue to support its future operation. Our strong cash position primarily supports our future development plan. To enhance liquidity in the long term, cash reserve is to be kept at 51.79% of the total assets while quick ratio can be improved to 1.28 in ten years. (Fig.10: R3)

**4. Indication of Share Issue:** The exceptionally high EPS (Fig 10: R4) indicates an opportunity to issue extra shares to the public in long term, so as to finance new projects while improving the leverage.

	Tango (2013)	Industry Average (2013)
R1. Return on Labour	17.13%	55.20%
R2. D/E Ratio	2.61	0.45
R3. Quick Ratio	0.97	1.94
R4. EPS	\$0.90	\$0.19

Fig. 10 Ratio Analysis (Extract)



### 6.3. Return on Investment

Flagship Store	Model	Assumption	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Sales Revenue	Growth rate	Section 6.1.1. (i)				54.21	64.30	76.27	90.46	107.30	127.26	150.95
Less: Increase in Occupancy Cost	Calc	HKD\$2,217/SqFt p.a. <sup>23</sup>				44.36	44.71	45.07	45.43	45.79	46.16	46.53
Renovation Cost	Calc	HKD\$362/SqFt <sup>27</sup>			14.52							
Advertising & Marketing	% 2013 Division A&M	HKD\$1530000				1.53	1.53	1.53	1.53	1.53	1.53	1.53
Employee Benefit Costs	% floor area	Section 6.1.1. (iv)				8.75	8.75	8.75	8.75	8.75	8.75	8.75
Cost of Material	% floor area	Section 6.1.1. (iv)				2.98	2.98	2.98	2.98	2.98	2.98	2.98
Other Operating Costs	% 2013 Other Cost	9.11%				5.25	5.28	5.31	5.35	5.38	5.41	5.45
Depreciation	% 2013 Total PPE	Equipment Cost*12.03%				2.08	2.08	2.08	2.08	2.08	2.08	2.08
Taxation	Tax rate	Section 6.1.2. (i)				0.00	0.00	0.00	2.64	6.09	10.20	15.09
<b>Incremental Earnings</b>						(14.52)	(10.73)	(1.03)	7.91	18.26	30.59	45.26
Depreciation							2.08	2.08	2.08	2.08	2.08	2.08
Less: CapEx (Net)												
Equipment Cost	% 2013 Division PPE	Area(SqFt)*HKD\$864				17.28	17.28	17.28	17.28	17.28	17.28	17.28
Deferred Revenue=Cash Received												
Less: Investment in net working capital						0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Project FCF</b>			0.00	0.00	(31.80)	(25.93)	(16.23)	(7.29)	3.06	15.39	30.06	47.52
<b>Franchise Network</b>												
Royalties	Calc	0.5% of sales <sup>28</sup>					0.18	0.41	0.50	0.58	0.66	0.74
Startup Fee	Calc	6.9% growth rate <sup>29</sup>				4.00	6.00	2.00	2.00	2.00	2.00	2.00
Franchise Fee	Calc	HKD\$250,000 p.a. <sup>28</sup>				0.50	1.25	1.50	1.75	2.00	2.25	2.50
Less: Franchisee Training Cost	Startup Fee	HKD\$2,000,000				4.00	6.00	2.00	2.00	2.00	2.00	2.00
Advertising & Marketing	% 2013 Division A&M	HKD\$1,000,000				1.00	1.00	1.00	1.00	1.00	1.00	1.00
Taxation	Tax rate	Section 6.1.2. (i)				0.00	0.17	0.25	0.33	0.42	0.50	0.58
<b>Incremental Earnings</b>						(0.32)	0.50	0.75	1.00	1.25	1.49	1.74
Less: CapEx (Net)						0.00	0.00	0.00	0.00	0.00	0.00	0.00
Less: Investment in net working capital						0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Project FCF</b>			0.00	0.00	0.00	(0.32)	0.50	0.75	1.00	1.25	1.49	1.74
<b>Online Retailing: Tmall</b>												
Sales Revenue	Growth rate	Section 6.1.1. (i)	42.12	45.49	49.13	53.06	57.30	61.89	66.84	72.19	77.96	
Less: Cost of Sales	% Sales	Sales revenue*48.72%	20.52	22.16	23.93	25.85	27.92	30.15	32.56	35.17	37.98	
Service Fee - Fixed	Calc	RMB¥60,000 <sup>5</sup>	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08	
Servie Fee - Variable	Calc	Sales revenue*0.5% <sup>30</sup>	0.21	0.23	0.25	0.27	0.29	0.31	0.33	0.36	0.39	
Taxation	Tax rate	Section 6.1.2. (i)	5.33	5.76	6.22	6.72	7.26	7.84	8.47	9.15	9.88	
<b>Incremental Earnings</b>			15.99	17.27	18.65	20.15	21.77	23.51	25.40	27.44	29.64	
Less: CapEx (Net)	Calc	Deposit: RMB¥125,000 <sup>30</sup>	0.16									
Less: Investment in net working capital	Days inventory on hand	211.32 Days	(11.88)	(0.95)	(12.91)	(2.06)	(14.10)	(3.35)	(15.50)	(4.86)	(17.13)	
<b>Project FCF</b>			(0.16)	27.87	18.22	31.56	22.21	35.87	26.87	40.90	32.30	46.77
<b>New Beauty Salon in HK</b>												
Sales Revenue	Growth rate	Section 6.1.1. (i)	30.41	60.82	65.32	70.15	75.34	80.92	86.91	93.34	100.24	
Less: Occupancy Cost	Calc	HKD\$2,076/SqFt p.a. <sup>23</sup>	20.76	41.52	42.85	42.85	42.85	42.85	42.85	42.85	42.85	42.85
Renovation Cost	Calc	HKD\$362/SqFt <sup>27</sup>	7.26	7.26								
Advertising & Marketing	% 2013 Division A&M	HKD\$420,000	0.42	0.84	0.84	0.84	0.84	0.84	0.84	0.84	0.84	0.84
Employee Benefit Expense	% floor area	Section 6.1.1. (iv)	14.40	28.80	28.80	28.80	28.80	28.80	28.80	28.80	28.80	28.80
Depreciation	% 2013 Division PPE	Equipment Cost*7.87%	0.60	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
Taxation	Tax rate	Section 6.1.2. (i)	0.00	0.00	0.00	0.00	0.27	1.19	2.18	3.24	4.38	
<b>Incremental Earnings</b>			(13.03)	(18.80)	(8.37)	(3.54)	1.38	6.03	11.03	16.40	22.17	
Depreciation			0.60	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
Less: CapEx (Net)												
Equipment Cost	% 2013 Division PPE	Area(SqFt)*HKD\$765	7.65	15.30	15.30	15.30	15.30	15.30	15.30	15.30	15.30	15.30
Deferred Revenue=Cash Received												
Less: Investment in net working capital			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Project FCF</b>			0.00	(20.08)	(32.90)	(22.47)	(17.64)	(12.72)	(8.06)	(3.06)	2.31	8.07
<b>Establishment of Tango Academy</b>												
Other Revenue: Training Deposit	No. of students	300 p.a. @HKD\$8,500	2.55	2.55	2.55	2.55	2.55	2.55	2.55	2.55	2.55	2.55
Less: Occupancy Cost: CN	Calc	HKD\$742/SqFt p.a. <sup>23</sup>	3.71	3.74	3.77	3.80	3.83	3.86	3.89	3.92	3.95	3.98
Renovation Cost	Calc	HKD\$362/SqFt <sup>27</sup>	1.81	1.81								
HKBHA License Fee	Calc	HKD\$16,600 per person <sup>31</sup>	1.99	1.99	3.98	3.98	3.98	3.98	3.98	3.98	3.98	3.98
Refund of deposit	% of revenue	75%	1.91	1.91	1.91	1.91	1.91	1.91	1.91	1.91	1.91	1.91
Advertising & Marketing	% 2013 A&M	50%	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Other Operating Cost	% 2013 Figure	9.11%	1.13	1.30	1.65	1.66	1.66	1.66	1.67	1.67	1.67	1.67
Taxation	Tax rate	Section 6.1.2. (i)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Incremental Earnings</b>			(1.81)	(8.49)	(10.47)	(14.71)	(14.74)	(14.78)	(14.81)	(14.84)	(14.88)	(14.91)
Less: CapEx (Net)												
Equipment Cost	-	Disposed equipment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Less: Investment in net working capital			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Project FCF</b>			(1.81)	(8.49)	(10.47)	(14.71)	(14.74)	(14.78)	(14.81)	(14.84)	(14.88)	(14.91)
<b>Incentive Scheme</b>												
Benefit from decrease in turnover rate	% Employee benefit expense	5.00%				32.70	32.70	32.70	32.70	32.70	32.70	32.70
Less: Operating Cost (Free service)	% Total Operating Cost	1%	6.05	6.05	6.04	6.04	6.04	6.04	6.03	6.03	6.03	6.03
Compensation Expense (Stock Options)	% shares issued	1% of issued share	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Taxation	Tax rate	Section 6.1.2. (i)	0.00	0.00	0.00	3.61	3.63	3.65	3.68	3.70	3.74	3.77
<b>Incremental Earnings</b>			(12.55)	(12.55)	(12.54)	16.55	16.53	16.51	16.49	16.46	16.43	16.40
Less: Investment in net working capital												
Paid-in Capital Stock options			(6.50)	(6.50)	(6.50)	(6.50)	(6.50)	(6.50)	(6.50)	(6.50)	(6.50)	(6.50)
<b>Project FCF</b>			(6.05)	(6.05)	(6.04)	23.05	23.03	23.01	22.99	22.96	22.93	22.90
<b>TPPS/Tango</b>												
Less: IT administration Cost	Calc	\$12000 per user p.a. <sup>13</sup>				12.00	12.00	12.00	12.00	12.00	12.00	12.00
Development Cost	Calc	\$12000 per user p.a. <sup>13</sup>				12.00	12.00					
Advertising & Marketing	% 2013 A&M	50%				6.00	6.00	6.00	6.00	6.00	6.00	6.00
<b>Project FCF</b>			0.00	(12.00)	(12.00)	(18.00)	(18.00)	(18.00)	(18.00)	(18.00)	(18.00)	(18.00)
<b>Other Costs</b>												
Less: Hiring a senior lab assistant	Calc	HKD\$436000 p.a. <sup>32</sup>	0.44	0.44	0.44	0.44	0.44	0.44	0.44	0.44	0.44	0.44
<b>Project FCF</b>			0.00	(0.44)	(0.44)	(0.44)	(0.44)	(0.44)	(0.44)	(0.44)	(0.44)	(0.44)

Fig. 11 DCF Valuation for the Projects (10 Year Forecast)

<sup>27</sup> Turner & Townsend (2012). International Construction Cost Survey 2012. Retrieved from [http://www.turnerandtowntsend.com/construction-cost-2012/TT\\_ICC\\_Report\\_Single\\_Pages\\_j98ul.pdf](http://www.turnerandtowntsend.com/construction-cost-2012/TT_ICC_Report_Single_Pages_j98ul.pdf)

<sup>28</sup> Anytime Fitness. (2014). Franchise Info. Retrieved from <http://www.anytimefitness.com/franchise-opportunities>

<sup>29</sup> Datamonitor Research. (2013, July 01). Gyms, Health & Fitness Clubs: Global Industry Guide. Retrieved from [http://www.datamonitor.com/store/Product/gyms\\_health\\_fitness\\_clubs\\_global\\_industry\\_guide?productid=ML00015-022](http://www.datamonitor.com/store/Product/gyms_health_fitness_clubs_global_industry_guide?productid=ML00015-022)

<sup>30</sup> Tmall. (2014). Fee Schedule. Retrieved from [http://about.tmall.com/tmall/fee\\_schedule](http://about.tmall.com/tmall/fee_schedule)

<sup>31</sup> HKBHA. (2014). ITEC Training Course Leaflet. Retrieved from [http://www.hkbha.hk/uploads/1/3/1/0/13109875/74c086433\\_-\\_pdf](http://www.hkbha.hk/uploads/1/3/1/0/13109875/74c086433_-_pdf)

<sup>32</sup> Indeed.com. (n.d.). Salary for Clinical Research Assistant. Retrieved from <http://www.indeed.com/q-Clinical-Research-Assistant-jobs.html>

DCF Valuation Summary (in HKD\$ million)										
	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Total FCF	(8.03)	(19.19)	(75.43)	(27.27)	(21.31)	6.41	12.60	44.15	55.78	93.66

Fig. 12 DCF Valuation Summary

Due to the robust market demand and mobility of high-end customers across HK and the PRC, the project will provide positive free cash flow starting from the sixth year (Fig.12), with a positive NPV of \$1.96 Million and IRR of 4.97% (WACC=4.72%).

## 6.4. Financial Statements Forecast

Tango Health and Beauty Limited Cash Flow Statement Forecast (HK\$ million)							
	Method	2013A	2014E	2015E	2016E	2017E	2018E
<b>Operating Cash Flows</b>							
EBIT (Operating Profit)	Calc	55	56.70	61.97	47.70	90.38	112.57
Depreciation	Implied	26	26.00	26.60	27.20	29.28	29.28
Increase in inventory	Calc	(1)	0.64	(9.86)	0.54	(0.73)	0.76
Increase in receivables, deposits and prepayments	Calc	(33)	19.23	(24.60)	(20.49)	(45.72)	(4.48)
Increase in trade payables and accruals	Calc	5	2.97	7.35	3.65	6.86	2.54
Increase in deferred revenue	Calc	71	1.47	63.80	31.70	59.55	22.10
		123	107.00	125.26	90.31	139.62	162.78
<b>Investing Cash Flows</b>							
Net purchase of property, plant and equipment	Implied	(39)	(40.98)	(53.16)	(80.42)	(84.80)	(86.43)
<b>Financing Cash Flows</b>							
Interest received	Calc	1	1.06	1.13	1.07	1.06	1.11
Tax paid	Calc	(11)	(15.41)	(20.74)	(21.16)	(21.63)	(22.29)
Dividends paid	Calc	(54)	(34.73)	(34.74)	(22.64)	(54.00)	(54.00)
		(64)	(49.07)	(54.35)	(42.73)	(74.57)	(75.18)
<b>Net Increase in cash</b>	<b>Implied</b>	<b>20</b>	<b>16.95</b>	<b>17.75</b>	<b>(32.85)</b>	<b>(19.75)</b>	<b>1.17</b>

Fig. 13 Statement of Cash Flow Forecast (2014-2018)

Tango Health and Beauty Limited Income Statement Forecast (HK\$ million)								
	Method	Assumption	2013A	2014E	2015E	2016E	2017E	2018E
<b>Turnover</b>								
Sales revenue: Hong Kong	Growth rate	Section 6.1.2. (iii)	\$528.71	\$553.67	\$584.07	\$614.48	\$618.98	\$623.82
Sales revenue: Mainland China	Growth rate	Section 6.1.2. (iii)	25.48	26.68	68.80	72.17	134.70	151.71
Sales revenue: Singapore	Growth rate	Section 6.1.2. (iii)	82.81	86.72	90.81	95.10	99.59	104.29
<i>Sales revenue: Total</i>			637.00	667.07	743.69	781.75	853.27	879.81
Other Revenue			-	-	0.6375	0.6375	0.6375	0.6375
Total Turnover			637.00	667.07	744.33	782.39	853.91	880.45
<b>Operating Costs</b>								
Cost of inventory sold			19	19	39.52	41.16	45.91	47.83
Employee benefit expenses			327	327	341.83	356.23	332.28	332.28
Occupancy costs			102	102	122.76	143.52	192.92	193.30
Building management			13	14.81	20.26	36.59	13.00	13.00
Depreciation			26	26	26.60	27.20	29.28	29.28
Advertising and marketing			12	12	18.42	18.84	27.38	27.38
Bank charges			30	30	30.00	30.00	30.00	30.00
Bad Debts			-	14	2	-	-	-
Compensation Expense			-	6.50	6.50	6.50	6.50	6.50
Selling & Administration Expense			-	-	14.28	14.30	20.31	22.33
Other operating expenses			53	59.05	60.18	60.35	65.95	65.98
Total operating costs			582	610.37	682.35	734.69	763.53	767.88
<b>EBIT (Operating Profit)</b>			<b>55</b>	<b>56.70</b>	<b>61.97</b>	<b>47.70</b>	<b>90.38</b>	<b>112.57</b>
Interest income	Starting cash	0.24%	1	1.06	1.13	1.07	1.06	1.11
Profit before taxation	Implied		56	57.76	63.10	48.77	91.44	113.68
Income tax expense	% of taxable profit		11	15.41	20.74	21.16	21.63	22.29
<b>Profit after taxation</b>	<b>Implied</b>		<b>\$45</b>	<b>\$42.35</b>	<b>\$42.36</b>	<b>\$27.61</b>	<b>\$69.81</b>	<b>\$91.39</b>
Dividends	% of net income		54	34.73	34.74	22.64	54.00	54.00
Retained Earnings	Implied		(9)	7.62	7.63	4.97	15.81	37.39

Fig. 14 Income Statement Forecast (2014-2018)



Tango Health and Beauty Limited								
Statement of Financial Position Forecast (HK\$ million)								
	Method	Assumption	2013A	2014E	2015E	2016E	2017E	2018E
<b>PPE, CapEx and Depreciation</b>								
Net FA								
Opening Bal.	Implied		203.00	216.00	229.31	253.10	301.10	347.33
(+) CapEx	& of Sales	6.12%	39.00	40.98	53.16	80.42	84.80	86.43
(-) Depreciation	% of starting net FA	12.81%	26.00	27.67	29.37	32.42	38.57	44.49
Ending Bal.	Implied		216.00	229.31	253.10	301.10	347.33	389.27
<b>Non-current Assets</b>								
Property, plant and equipment	See PPE calc		216.00	229.31	253.10	301.10	347.33	389.27
Deposits (Long-term)	% of sales	5.39%	32.00	35.99	40.12	42.17	46.03	47.46
	Implied		248.00	265.30	293.22	343.28	393.37	436.73
<b>Current Assets</b>								
Inventory	Days inventory on hand	150.00	11.00	10.36	20.22	19.68	20.41	19.66
Trade receivables	Days of sales	14.00	26.00	2.00	-	-	-	-
Deposits (Short-term)	% of sales	15.86%	101.00	105.77	117.92	123.95	135.29	139.50
	% of							
Prepayment of rent	Occupancy Cost	69.61%	71.00	71.00	85.45	99.90	134.29	134.56
Cash and Bank			410.00	434.54	462.76	440.00	432.64	454.76
<b>Total Current Assets</b>	Implied		619.00	623.67	686.35	683.54	722.64	748.47
<b>Total Assets</b>	Implied		867.00	888.97	979.57	1,026.82	1,116.00	1,185.20
<b>Equity</b>								
Share capital and reserves								
Starting	Implied		249.00	240.00	254.12	268.25	279.72	302.03
(+) Paid-in Stock Options (5Y)			-	6.50	6.50	6.50	6.50	6.50
(+) Increase in retained earnings	Implied		(9.00)	7.62	7.63	4.97	15.81	37.39
Ending	Implied		240.00	254.12	268.25	279.72	302.03	345.92
<b>Liabilities</b>								
Trade payables and accruals	Days of Sales	35 Days	61.00	63.97	71.31	74.96	81.82	84.37
Deferred revenue	% of sales	83.27%	554.00	555.47	619.28	650.97	710.53	732.63
Tax payable	Implied		12.00	15.41	20.74	21.16	21.63	22.29
<b>Total Liabilities</b>	Implied		627.00	634.84	711.32	747.10	813.97	839.28
<b>Total Equity and Liabilities</b>	Implied		867.00	888.97	979.57	1,026.82	1,116.00	1,185.20

Fig. 15 Statement of Financial Position Forecast (2014-2018)

**1. Cash outflow of the project:** To support our project, the expected cash outflow from 2016 - 2017 will be relatively higher. In 2018, a substantial increase in net cash flow is expected from the launch of flagship store and franchise in PRC. (Fig.13)

**2. Profit and dividend payment:** With the current business growth, profit after tax will increase to \$91.39M in 2018 (a CAGR of 15.22%), sustaining a high dividend payment to our shareholders. (Fig.14)

**3. Effect on Financial Ratios:** The project will bring positive effect on Tango's management efficiency and leverage, securing Tango's development in long term.

	2013A	2018E	2023E
R1. EPS	\$0.90	\$1.83	\$4.40
R2. Return on Labour	17.13%	34.21%	81.55%
R3. Dividend Cover	0.83	1.69	4.07
R4. D/E Ratio	2.61	2.43	1.11
R5. Quick Ratio	0.97	0.87	1.28

Fig. 16 Financial Ratio Forecast Extract (5 Years & 10 Years)

## 7. CORPORATE GOVERNANCE

### 7.1 The Board of Directors

At 31 December 2013, the Board of Directors consisted of three executive directors, including the Chairman (David Chan), the Chief Executive Officer (CEO, Nigel Yip), the Chief Finance Officer (CFO, Jenny Kwok) and six independent non-executive directors. An Extraordinary General Meeting will be held with regard to David Chan's withdrawal to inform members and shareholders about the possible changes of the Board composition. To achieve a balanced composition of Directors, either existing independent non-executive directors (at least one-third of the Board<sup>33</sup>) or new members will be invited to be executive directors. This can enhance operation efficiency and improve the corporate governance of Tango.

### 7.2. Financial Risk Management – Currency Exposure

To match with our future development plan of PRC expansion, we will increase the proportion of cash held in RMB given that it has a trend to appreciate in value against HKD<sup>34</sup>. Since Tango sources most of its beauty and wellness product from France, Tango may also open an account in Euros. However, given the slow recovery of European economy<sup>35</sup> and ongoing depreciation of Euros<sup>36</sup> in value against HKD, Euros account will not be opened in the short term.

---

<sup>33</sup> HK Exchange and Clearing Limited (2005). Chapter 3 of the Main Board Listing Rules on Authorised Representatives, Directors, Board Committees and Company Secretary. Retrieved from [https://www.hkex.com.hk/eng/rulesreg/listrules/mbrules/documents/chapter\\_3.pdf](https://www.hkex.com.hk/eng/rulesreg/listrules/mbrules/documents/chapter_3.pdf)

<sup>34</sup> Bloomberg. China Renminbi-HK Dollar Exchange rate Chart. Retrieved from <http://www.bloomberg.com/quote/CNYHKD:CUR/chart>

<sup>35</sup> Charles Forelle (2013). Europe Heads Toward Recovery, but Slowly. The Wall Street Journal. Retrieved from <http://online.wsj.com/news/articles/SB10001424127887323838204578654341905240144>

<sup>36</sup> Bloomberg. Euro-HK Dollar Exchange rate Chart. Retrieved from <http://www.bloomberg.com/quote/EURHKD:CUR/chart>

### **7.3. Accountability and Audit**

#### **1. Dividend payout policy**

Tango has managed to implement an exceptionally high dividend payout ratio of 120% in 2013. This shows our confidence in both internal operation as well as the external environment. Nevertheless, the dividend payout ratio will be readjusted to a reasonable level of 81.59% in the short term (industry average, Section 6.1.3.) whereas retained earnings will be used for future development plan to maintain sustainable growth for Tango. We care about the interest of our investors; therefore we are doing our best to balance both short-term and long-term development of Tango to ensure sustainable return for investors.

#### **2. Bad debts write-off policy**

According to the prudence concept of financial reporting<sup>37</sup>, allowance for doubtful accounts should be established to avoid overstating Tango's assets. Accounts receivable aging method will be adopted to estimate the amount of non-collection for accounts receivable based on the amount of time that they have been outstanding. It helps Tango to identify the customers that are regularly late with their payments so that we can restrict credit to these customers and continue to offer credit to customers who pay on time. With TPPS, amount of receivables is expected to be reduced significantly as value can be directly deducted from customer's membership card.

---

<sup>37</sup> HKICPA. (2014). IASB Discussion Paper of A Review of the Conceptual Framework for Financial Reporting. Retrieved from [http://www.hkicpa.org.hk/file/media/section6\\_standards/standards/FinancialReporting/submission-pdf/](http://www.hkicpa.org.hk/file/media/section6_standards/standards/FinancialReporting/submission-pdf/)

## **8. EVALUATION ON EXTERNAL ADVISOR'S PROPOSAL**

### **8.1. Overview**

In view of the possibility of legal disputes with new investor and ethical issues arise from replacing purchased package, as well as the conflict of interests led by the bonus plan for the senior management, the external advisor's proposal will not be accepted. Suggestions regarding the future development of SlimFit are provided.

### **8.2. Legal Perspective**

With the elements of offer and acceptance<sup>38</sup> in our consumer contracts, it is a Breach of Contract of replacing the purchased package at SlimFit with the blood transfusion therapy from Magic Spa. As what the existing customers accepted is the services provided by the S&F division but not the blood transfusion therapy. Tango undertakes to offer fitness service at the time the contract was formed. If Tango replaces the customers' purchased packages with the new service without customers' consent, it may breach the contract. To avoid involving in litigation with customers, the external advisor's proposal should not be accepted from the legal aspect.

---

<sup>38</sup> E-lawresources.co.uk. (n.d.). *Contract agreement - offer and acceptance*. Retrieved from <http://www.e-lawresources.co.uk/Offer-and-acceptance.php>

### 8.3. Ethical Perspective

There are two ethical issues come upon the shutdown of SlimFit.

#### 1. Client Safety

Clients' health should be of the utmost concern. Since the therapy's safety is unproven (i.e. a human trial on blood transfusion triggered septic shock on a patient) and there is previous case revealing death of woman after receiving this treatment<sup>39</sup>, this therapy should only be carried out with adequate researches and until all trials are passed. Employees' prospects should also be considered because any therapist who performed a questionable therapy will face disciplinary action from the Medical Council and criminal charges.<sup>40</sup>

#### 2. Conflict of Interest

Bias occurs since senior management will receive bonus when the original budget (i.e. no refund) is met. The senior management may not consider wisely about the future development of this division in the interest of the shareholders. The principle of professional competence and due care under HKICPA Code of ethics<sup>41</sup> has not been promoted in this case as the senior management may not be able to maintain professional knowledge at the level required to ensure that they make decisions independent of their bonus and shareholders can receive competent professional service. Moreover, the objectivity principle should always be upheld to avoid any conflict of interest or undue influence of others to override professional or business judgment.

---

<sup>39</sup> South China Morning Post. (2012, Oct 6). *Fourth woman in hospital after blood transfusion beauty therapy*. Retrieved from <http://search.proquest.com.lib.ezproxy.ust.hk/docview/1086350068/E6708F13959D40DEPQ/3?accountid=29018>

<sup>40</sup> South China Morning Post (2012, Oct 11). *Blood therapy doctors could face manslaughter charges*. Retrieved from <http://search.proquest.com.lib.ezproxy.ust.hk/docview/1095605955/5476286FE9D749EBPQ/2?accountid=29018>

<sup>41</sup> HK Institute of Certified Public Accountants, (Ed.). (2013). *Fundamental Principles*. In Code of Ethics for Professional Accountants. [PDF version]. Retrieved from [http://app1.hkicpa.org.hk/ebook/HKSA\\_Members\\_Handbook\\_Master/volumel/COErevised.pdf](http://app1.hkicpa.org.hk/ebook/HKSA_Members_Handbook_Master/volumel/COErevised.pdf)

## **8.4 Suggestions regarding SlimFit**

In view of the potential refund and its adverse impact on our corporate image, shutting down the S&F division is not recommended. Suggestions are as follows:

### **1. Sale of division**

Memberships of Tango's customers will be bundled with the sale of division to other fitness centers. Members can continue to enjoy fitness services. Since the growth rate (i.e. 4.9%<sup>42</sup>) of the S&F industry is expected to be higher than WACC (i.e. 4.7%), the division is still profitable so it is not recommended to discontinue the operation of this division. Besides, seeking an appropriate buyer requires time and involves additional costs.

### **2. Continuation with research and development**

The decline of sales may be attributed to the change in consumer tastes. Further research on the trend of fitness industry can help adjust the current strategies and equipment in attracting more customers. However, R&D involves a high cost whereas outcome is uncertain.

### **3. Establishment of franchise network in PRC (recommended)**

With the annual growth rate of 15.9% in the Fitness Clubs industry<sup>43</sup>, granting franchise in Mainland China can render additional NPV of \$4.64M (Fig.11). This helps increase Tango's profit and expand market growth more quickly (Section 4.2.1.). Moreover, the operational risk will be transferred to the franchisee.

---

<sup>42</sup> HKExnews. (n.d.). Industry Overview (pp.56). Retrieved from <http://www.hkexnews.hk/reports/prelist/Documents/EWPOTOHL-20111125-09.pdf>

<sup>43</sup> IBISWorld. (2014, Jun). *Gym, Health & Fitness Club in China: Market Research Report*. Retrieved from [www.ibisworld.com/industry/china/gym-health-fitness-clubs.html](http://www.ibisworld.com/industry/china/gym-health-fitness-clubs.html)



## 9. CONCLUSION

Tango, who strives to be Asia's leading health and beauty player, is going to make every endeavor to create value to shareholders. With an exhaustive analysis on Tango's internal situation and the market environment, we have come up with three strategies. For our business, "MOSTrategy" focuses on expanding and sustaining our business to capture a larger market share. Tango Club will be introduced to our customers with a purpose to optimize customer experience. Last but not least, Tango Academy will be launched for talent acquisition and retention. By following the implementation plan, Tango can generate positive free cash flow starting from 2019 (i.e. 6<sup>th</sup> year), with an NPV of \$1.96M, showing a promising return for our project. Also, the project can enhance Tango's management efficiency and leverage, securing Tango's development in the long term. EPS of \$1.83 in 2018 and \$4.40 in 2023 are expected as compared to \$0.90 in 2013. In addition, Dividend Cover is expected to increase from 0.83 in 2013 to 1.69 in 2018 and 4.07 in 2023. Reflecting Tango's belief in the importance of inner beauty, we are aware of the importance of corporate governance and ethical issues with potential legal disputes. Actions are introduced to strive for the highest corporate governance and ethical standards within Tango's internal structure, thus enhancing our operation efficiency.

The combination of years of industry experience together with cutting-edge strategies and technology has Tango poised to claim top spot in the market. With all the evidence proving that the investment in Tango is promising, take this valuable opportunity to become the major shareholder and get in on the ground floor of Tango with unlimited growth potential!

-END-