



TELLY TOYS:
Grow with You



PART I	Current Situation
PART II	Select New Strategy
PART III	Implementation
PART IV	Financial Forecast
PART V	Ethical Issue
PART VI	Appendix

A photograph of a child's play area. In the foreground, a light-colored wooden toy box with a blue top and floral patterns on the front sits on a white surface. A small blue elephant toy is perched on the box. Behind it, a wooden chair holds several white rabbit figurines and colorful Easter eggs. To the right, a yellow beaded necklace is visible. The background is filled with various toys, including a stuffed dog and other colorful items, all slightly out of focus.

Part I

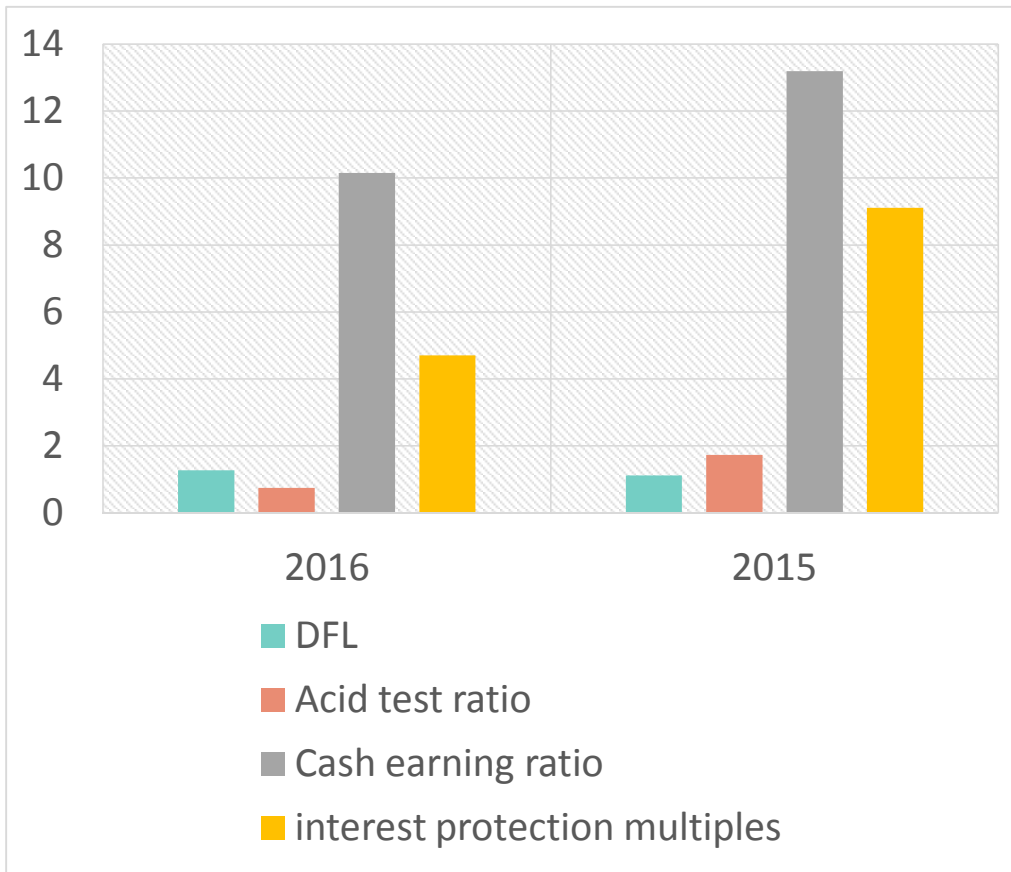
Current Situation



- *Retail Toys in HK and Mainland*
- *Over twenty physical stores*
- *Online store*

Financial situation

Liquidity



 Seasonality in revenue

 Dull inventory

 Potential risks in interest and exchange rate

Financial situation


Profitability



	2015	2016	Industry Average in 2016
ROA	15.4284%	7.5017%	11.32%
ROE	25.1208%	12.1668%	19.57%
Net profit	13.8706%	7.8856%	16.88%

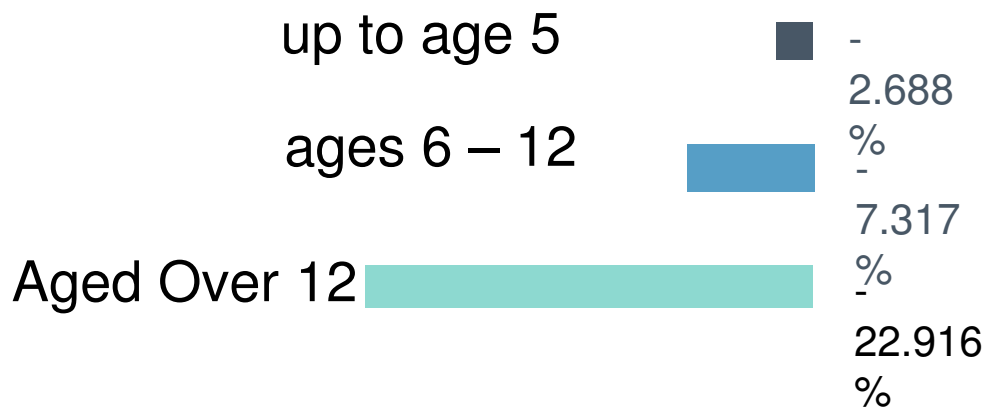


 Dividends maintained unchanged

 Share price kept falling

Operation situation

Mismatch customer's need



- Revenue decreased 2.6%
- Inventory balance went 11.34% up
- Inventory turnover comparatively high

Total cost rose suggests management issue



High operation cost in physical store and warehouse



Part II

Select New Strategy

New Strategy- Evaluation and Selection



Market Margin

China is still the most promising market with great potential

Economic prosperity with rapid growth

1

The large number of children and newborns

2

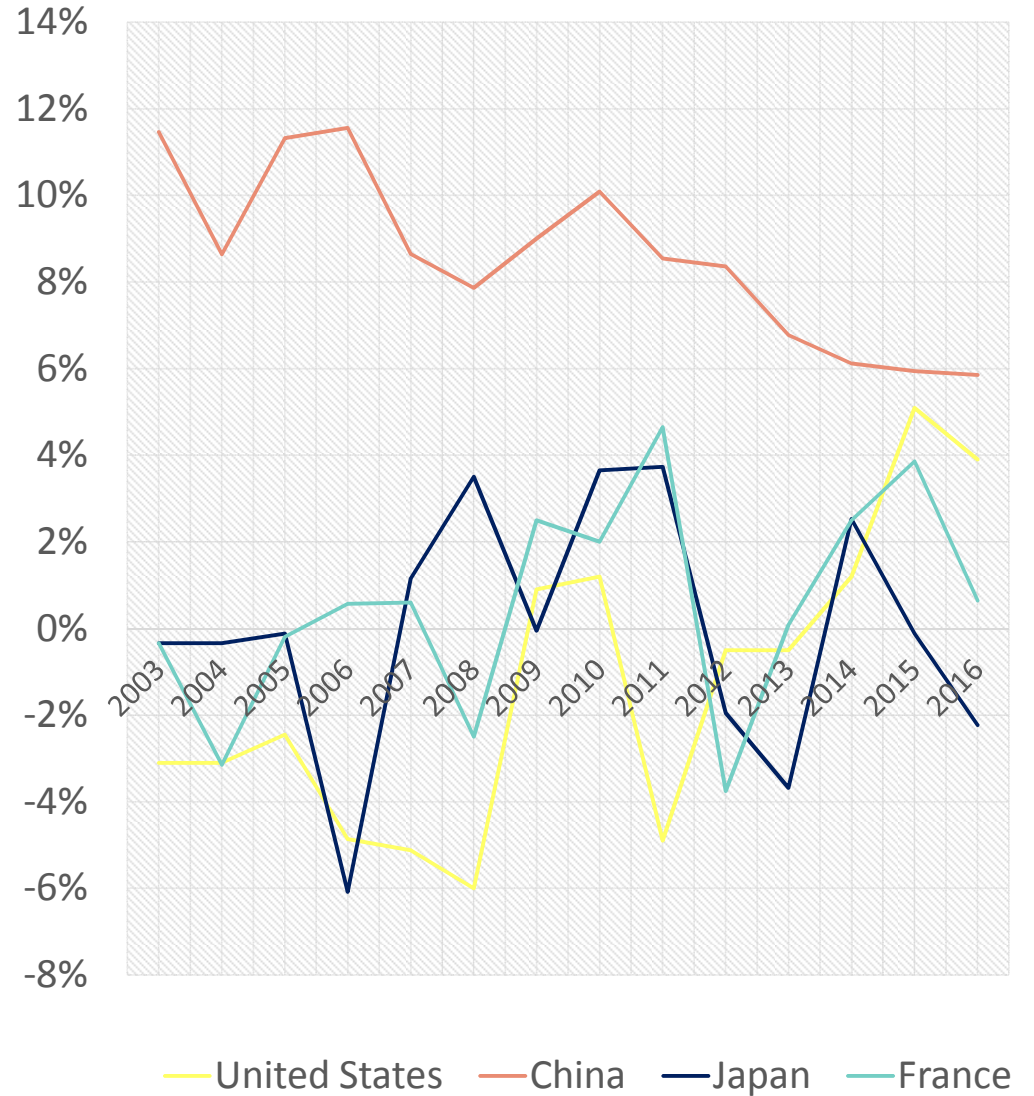
Family structure tends to spend more on children

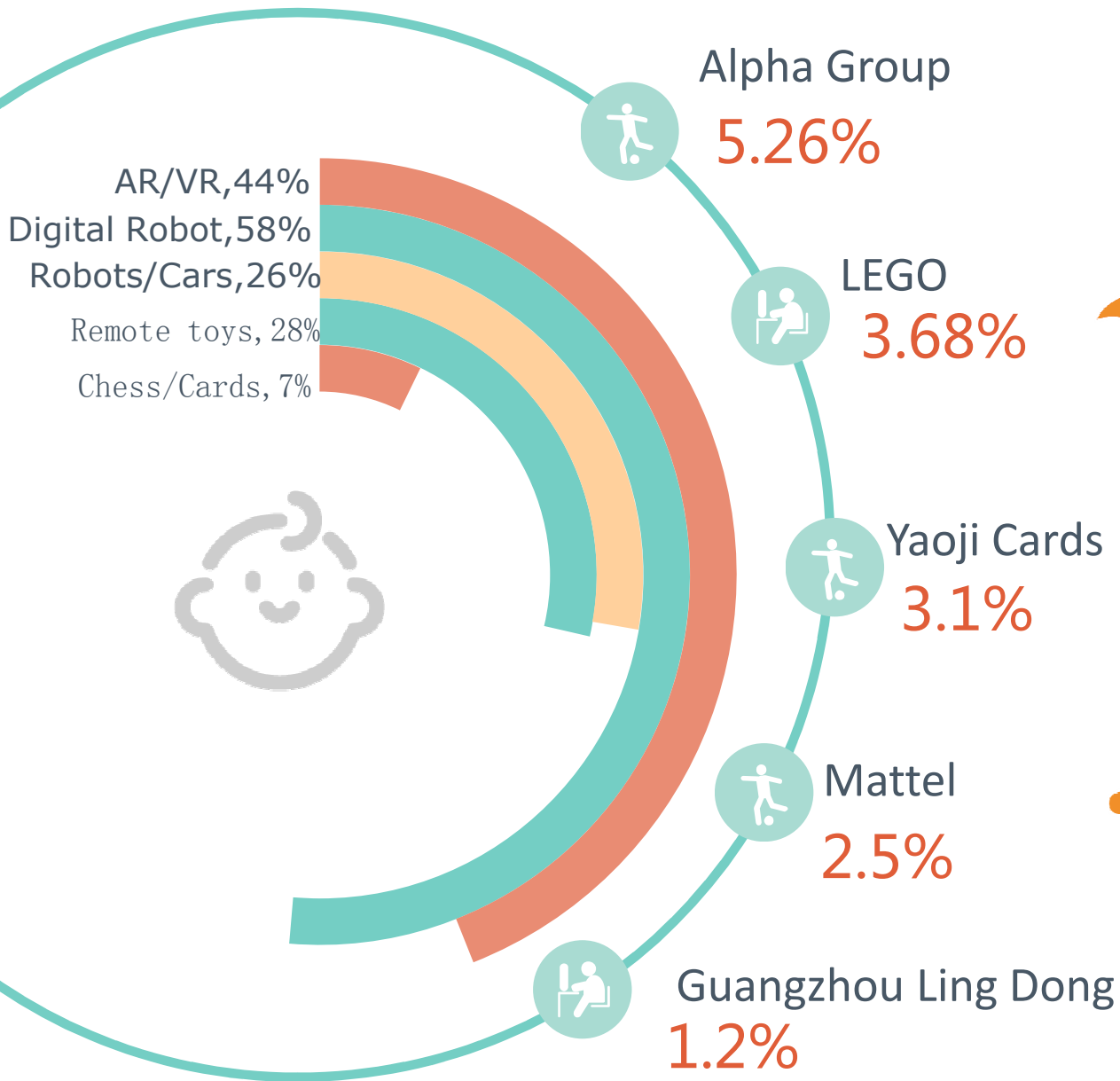
3

Persistent rise in both domestic and export sales

4

Growth rate of markets with biggest capacity





Industry Trend



Fierce competition in current industry



Dull growth in traditional toy items



Promising prospect of digital and intelligent toys

Product portfolio



Lacked wide acceptance and popularity



Low added value



Missing a strong core product to elevate brand name



Few branches in product line



Product structure need urgent optimization

Decision

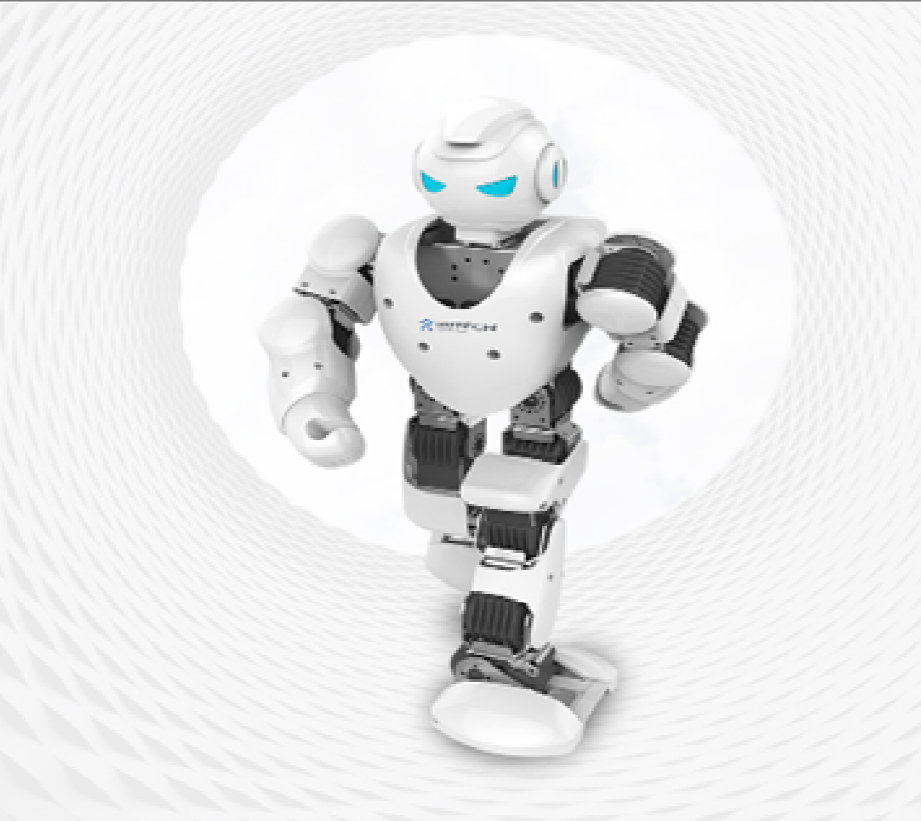
	Consolidation	Market Development	Product Development	Withdrawing
Purpose	<ul style="list-style-type: none">• Expand market share and sales volume• Implement cost control and scale effect	<ul style="list-style-type: none">• Enter new market to increase sales volume	<ul style="list-style-type: none">• Launch new products to increase sales volume• Differentiation bring pricing power	<ul style="list-style-type: none">• Focusing on core product to increase sales volume and build brand
	Inappropriate <ul style="list-style-type: none">• Lacked liquidity• Capital demand worsens financial strait• Management issue	Inappropriate <ul style="list-style-type: none">• No need to enter other market• Entrance barrier• Encounter same setbacks	Most suitable one <ul style="list-style-type: none">• Enhances pricing power while increases sales• Risks under control	Inappropriate <p>Lead to loss of market share</p>

Part III

Implementation



Introduction and Specification



Details & Specifications

Name	YuanFang
Function	3D Visual Programming, Voice Interaction, Media, Smart Alert
Outlook	A brain, LED eyes, Eight motors
Users' Age	Mainly 4-14
After Sale Service	One-for-One Engineer Consulting, Return& Exchange in 7 Days Without Reasons, 1 Year System Warranty, Instalment Allowed, Fast Delivery
Price	HK\$2000
Security	Safe



3D Visual
Programming
& Modeling

Education
Data

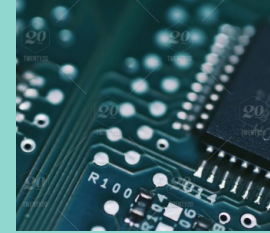
Simultaneous
Interpretation

Dancing &
Singing

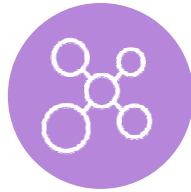
Detailed Plan:



Renting speech recognition from iFLYTEK

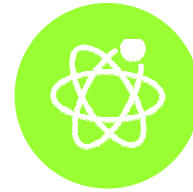


Self-R&D on programming education & sensor for escort robot

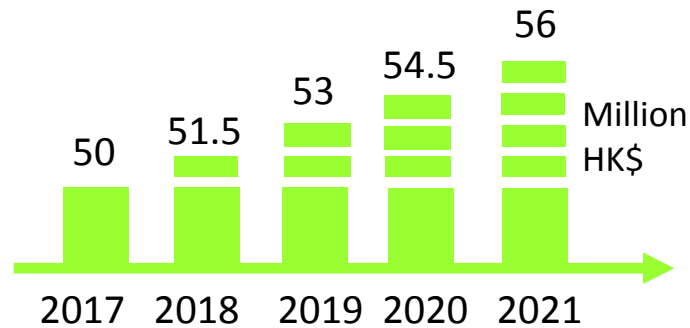


Renting

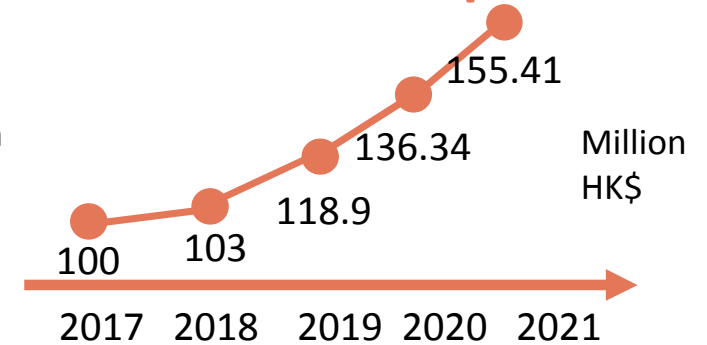
Expenditure: 8,000,000 HK\$



Core Technology



Other Technique



Outsourcing

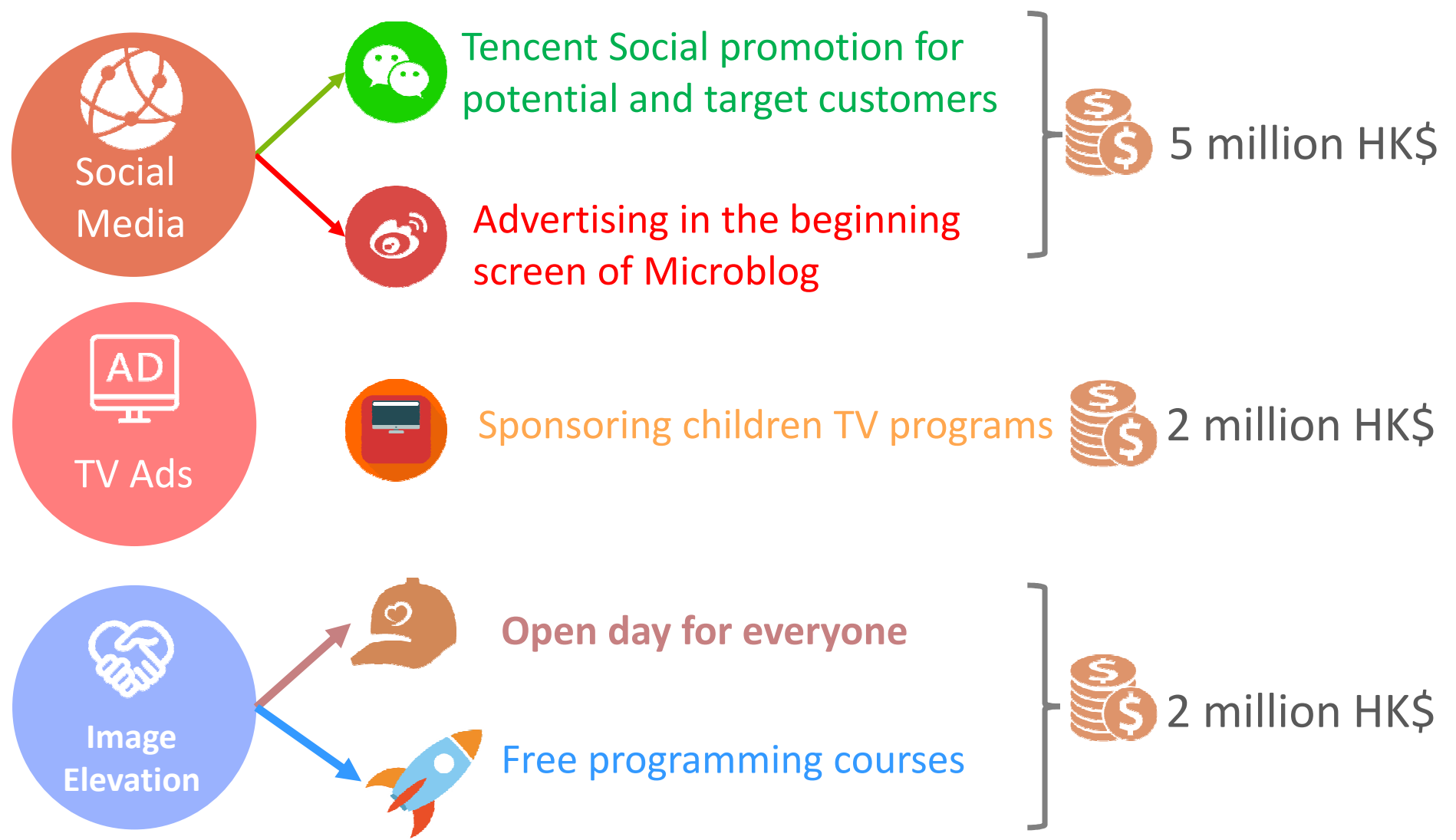
Placing R&D result into production



Relationship with Manufacturer

- Sharing data of customers' demand with manufacturer
- Forming solid cooperation relationship

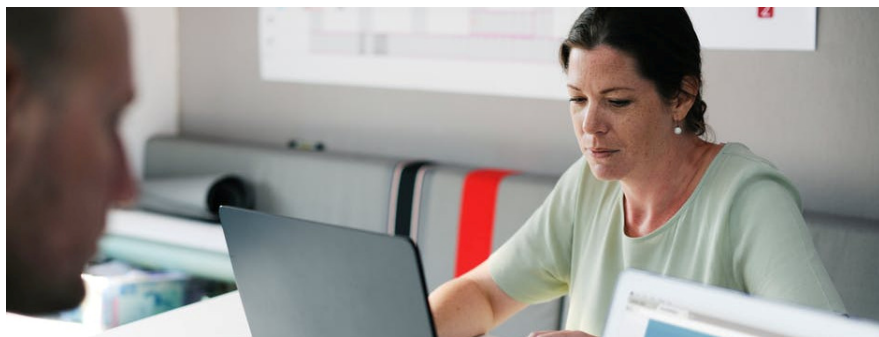
Marketing



1 CORE STRATEGY:

TARGET COST MANAGEMENT

- Setting selling price HK\$2000
- Estimating the required profit 55%
- Calculating target cost HK\$900
- Analyzing difference
- Looking for methods to control cost



2 OTHER SUGGESTIONS

- Launching campaigns appealing citizens to buy unsold inventories and donate to pool children
- Replacing HK warehouse with a new one in Dongguan
- Recruiting from Mainland



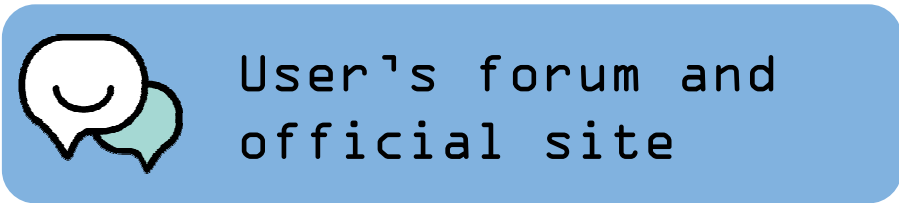
Feasibility: Separate function of online and offline channels

EXPAND ONLINE CHANNEL ← Drainage

KEEP CURRENT SCALE OF PHYSICAL STORES



Convenient access



User's forum and official site

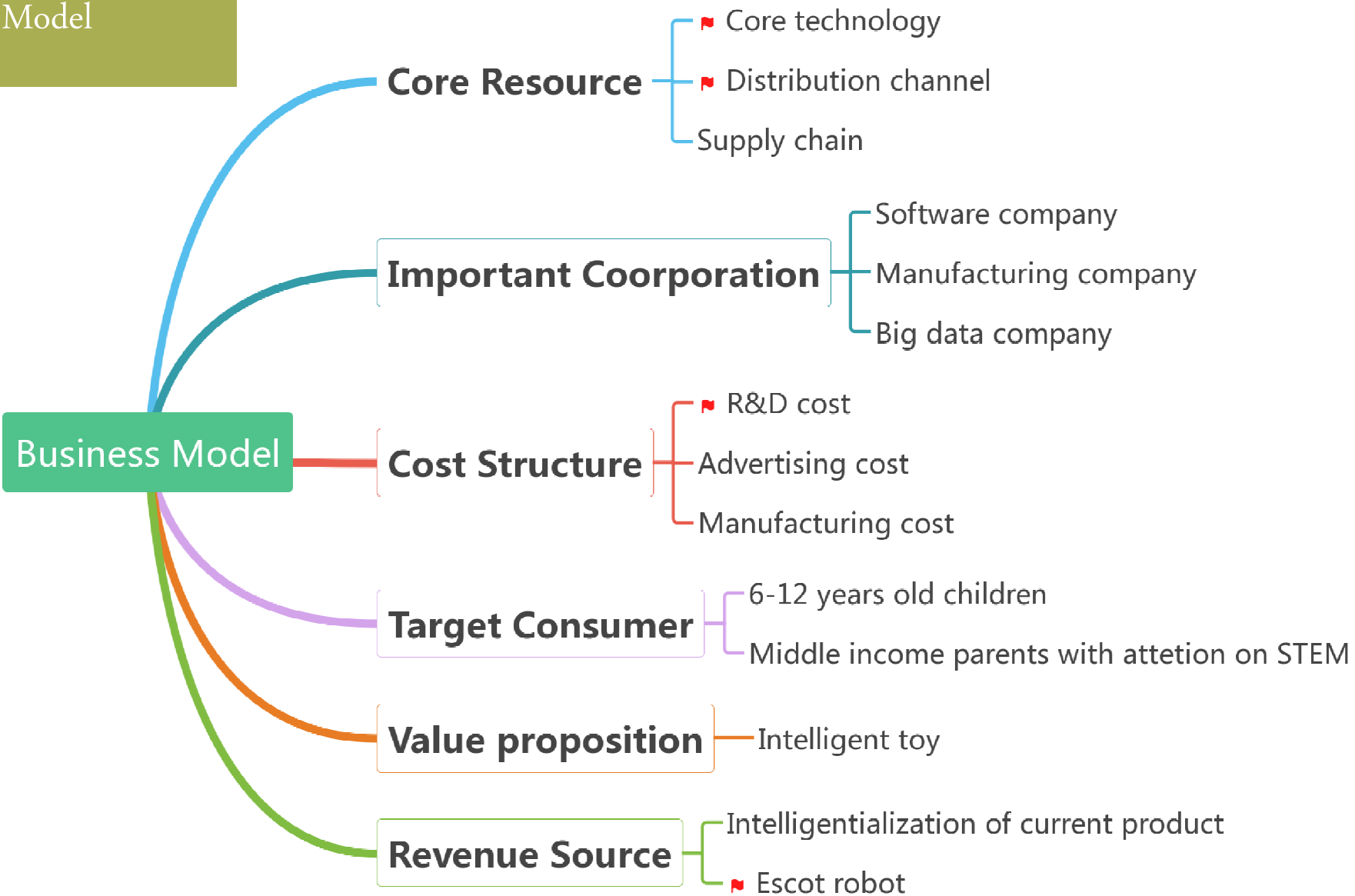


- Advertise for Telly Toy brand
- Offer tryouts for customers

Collect Data and Receive Feedbacks from users to improve

 For Entry and Operating: 5 million HK\$

Business Model



Timeline

Strategy

1 R&D strategy

- Renting speech recognition
- Self R&D on escort robot
- Launching new product
- Expanding product portfolio

2 Manufacturing strategy

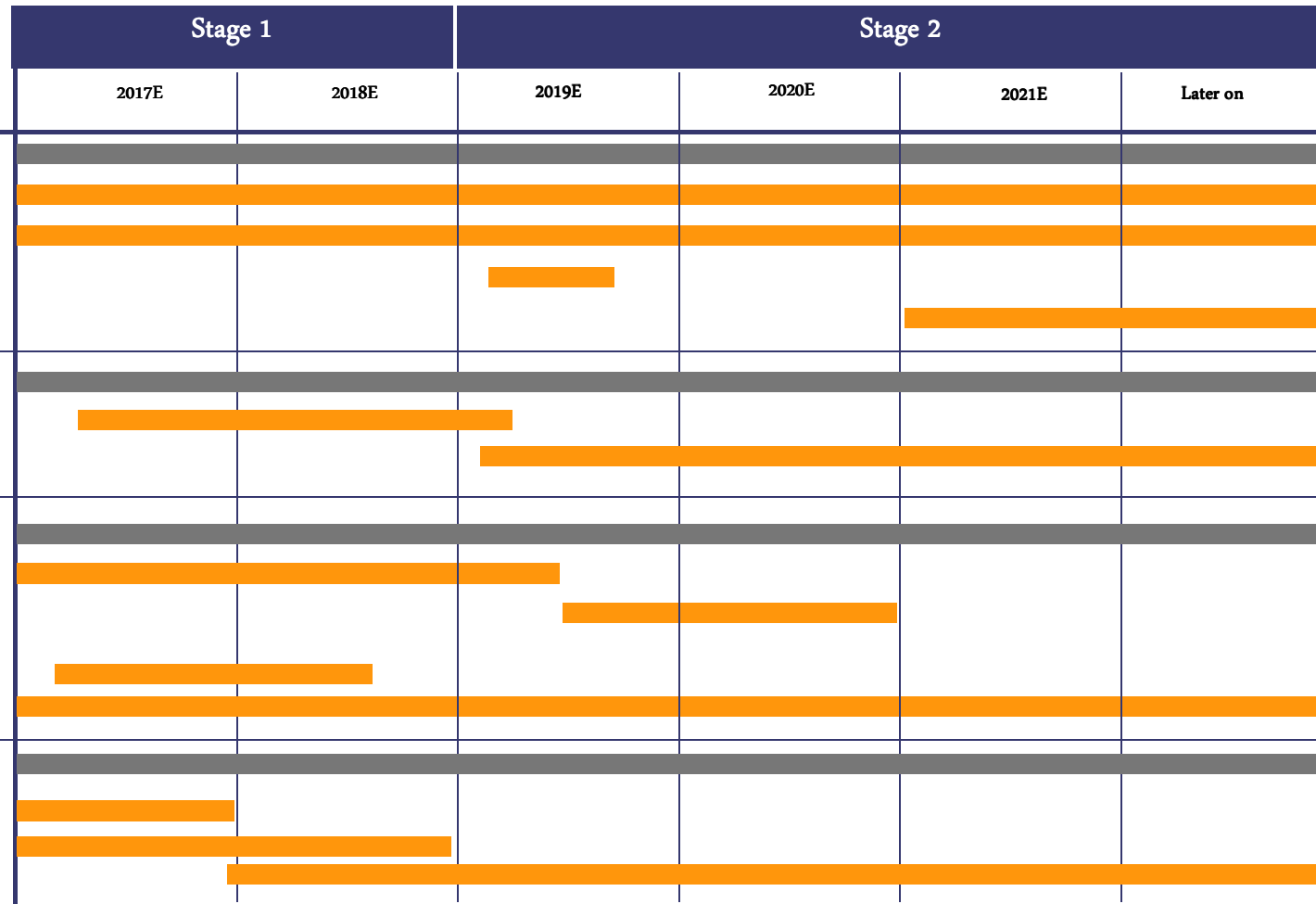
- Current product intellectualization
- Putting escort robot into production

3 Advertising Strategy

- Raise customer awareness
- Advertising for new product by social media and TV
- Improving aftersales service
- Building good social image

4 Channel strategy

- Expanding online channel
- Making full use of physical store
- Building user data pool



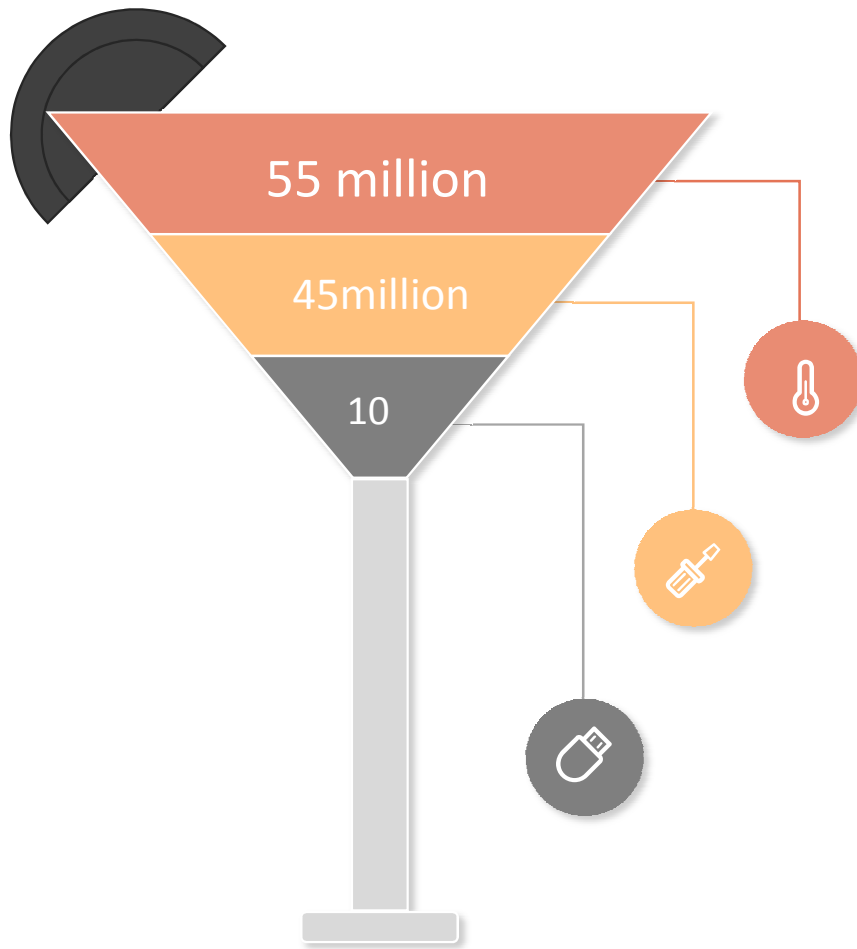
Stage1

Focusing on R&D and channel optimization in preparation for escort robot

Stage2

Focusing on new product and forming core competitiveness

Funding



- 55 million HK\$
Issuing middle term corporation bonds
- 45 million HK\$
Substituting the warehouse in HK with one in Dongguan
- 10 million
Own Reserved Capital



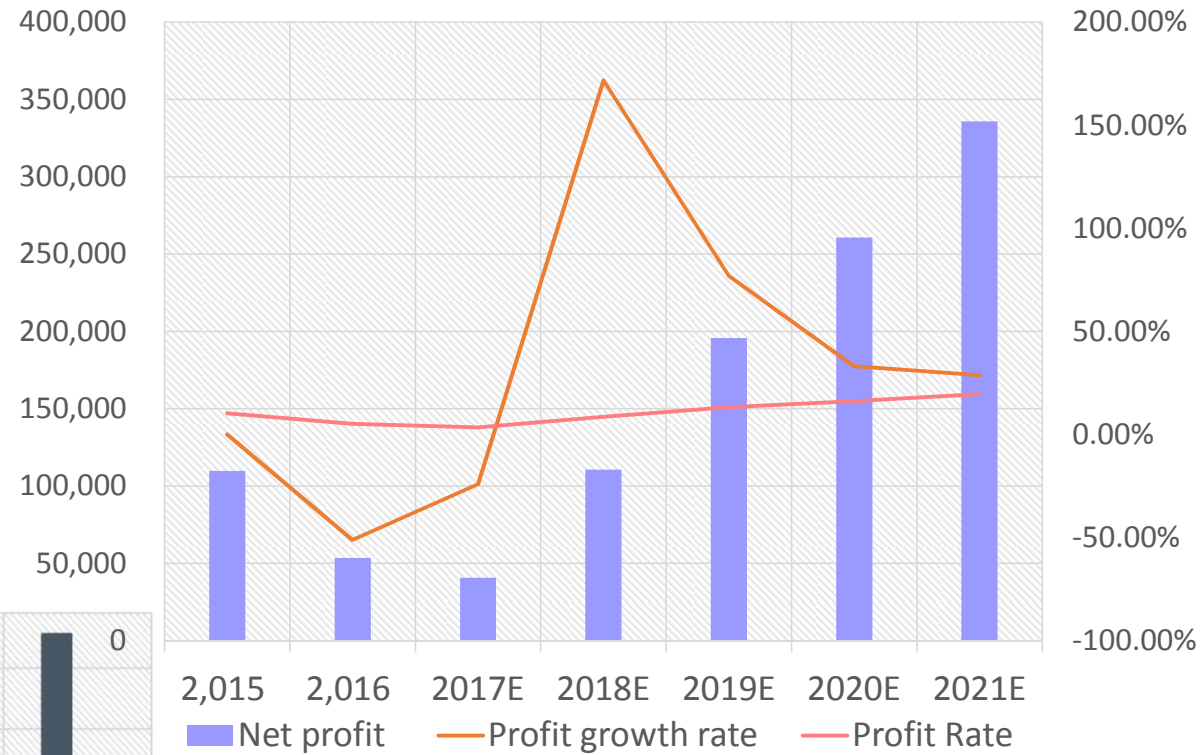
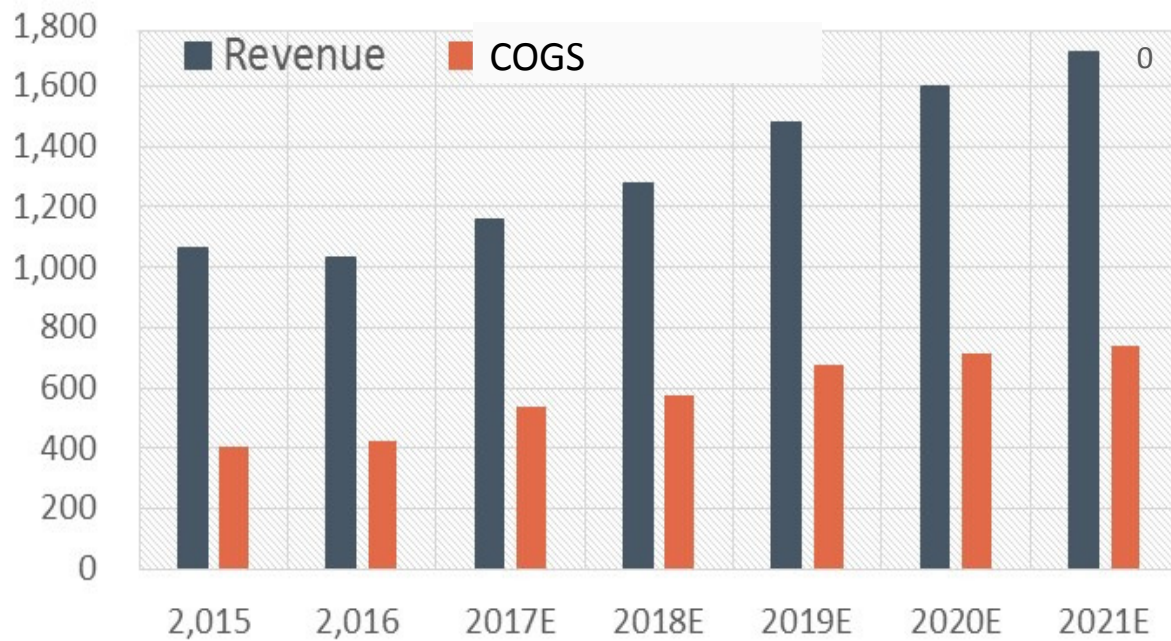
DATE (END OF BEAR MARKET)	INDEX	DURATION MONTHS	DECLINE
1942	7.47	62	-60.0%
1949	13.55		-29.6
1957	38.98		-21.5
1962	52.5	6	-28.0
1970	79.2	8	-22.2
1980	69.29	18	
1982	62.28	21	
1989	102.42	20	
2000	223.92	3	
2008	295.46	3	
2015	176.76	31	-49.1
2020	244.55	9	-20.5

Part IV

Financial Forecast

1.Revenue Forecast

- Compound Annual Growth Rate of Revenue:
10.66%
- Growth of revenue exceeds growth of COGS



- Compound Annual Growth Rate of Profit:
44.32%
- Profit increases sharply in 2018
- Profit rate increases to **19.56%** in 2021

2.Forecast of Cash Flow

- Compound growth rate of cash:

31.73% .

- IN 2021

Current Ratio: 3.49

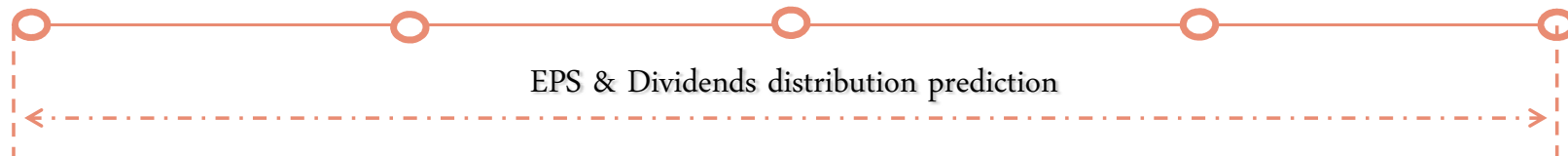
Acid Ratio: 2.47

Both higher than it was in 2016

	2017	2018	2019	2020	2021
Cash flow from operating activities	55922	128509	178596	251346	331905
Cash flow from Investing Activities	(15500)	(23708)	(30893)	(42138)	(49065)
Cash flow from Financing Activities	2458	(57796)	(73576)	(87628)	(86927)
Net change in cash	42880	47005	74127	121579	195914
Beginning cash balance	105008	147888	194893	269020	390599
Ending cash balance	147888	194893	269020	390599	586512

The large amount of cash can support the continual growth of dividends payment. TT may distributes the dividends with a continual growth rate between 5% and 10%

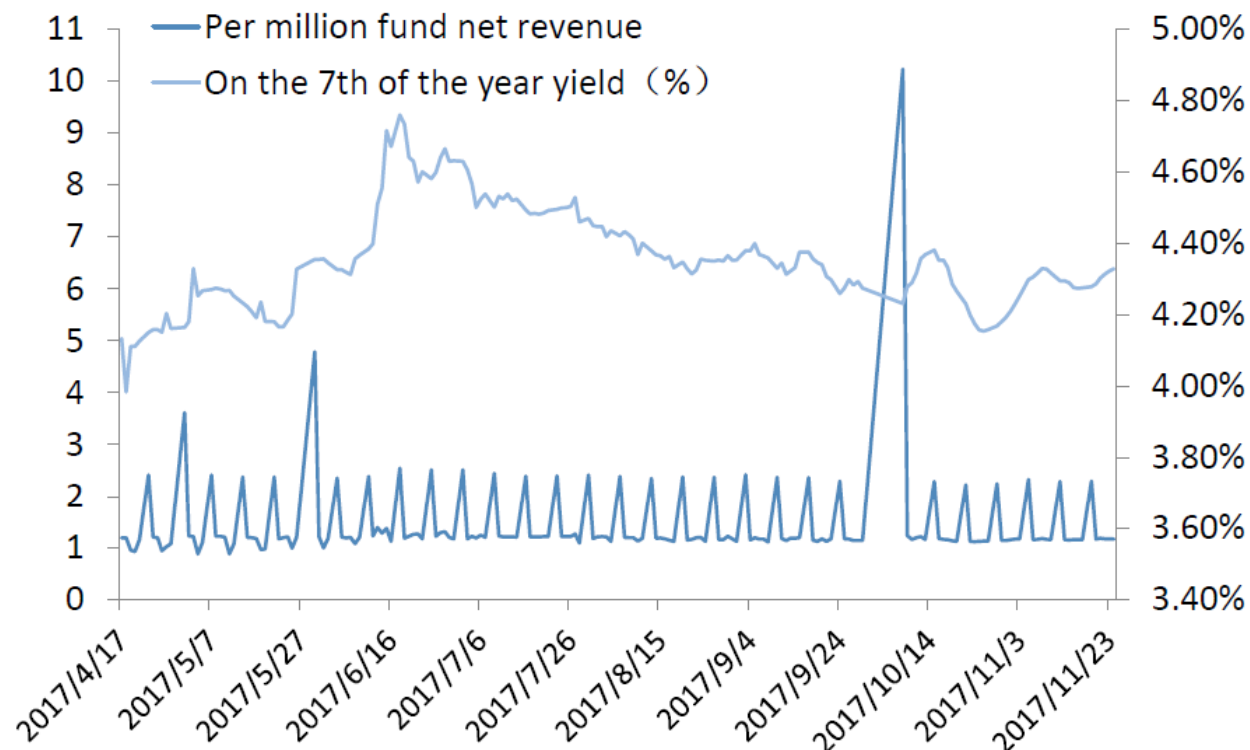
2017	2018	2019	2020	2021
EPS: HK\$0.34	EPS: HK\$0.92	EPS: HK\$1.63	EPS: HK\$2.17	EPS: HK\$2.80
Dividend: 43.79 cents	Dividend: 48.16 cents	Dividend: 52.98 cents	Dividend: 58.28cents	Dividend: 64.11cents



3. Management of Surplus Cash

To avoid periodical fluctuation in cash flow, we suggest invest on open-end funds and money market fund with free withdraw.

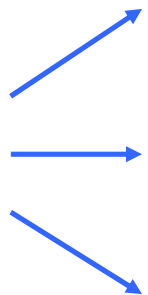
**We recommend E-Fund B,
Annual Yield Rate 4.3%**



HK\$000	2017E	2018E	2019E	2020E	2021E
Total Cash	147,888	194,893	269,020	390,599	586,512
Proportion of cash invested	5%	10%	20%	25%	40%
ROI	4.30%	4.30%	4.30%	4.30%	4.30%
Total Return	317.96	838.04	2313.57	4198.96	10088.02

Strategy Risk Management

If new products launch in...



Year of Launch	Prob.	WACC	NPV of 7-year cash flow HK\$000	Total Company value HK\$000
The third year	0.75	7.67%	1159052.74	4563555.69
The fourth year	0.20	7.67%	1046869.30	3956582.51
The fifth year	0.05	7.67%	984357.09	3738859.99
Expected NPV			1127881.27	4400926.27
Standard Deviation (SD)			55419.24	1528234.73
Coefficient of Variation (CV)			0.05	0.35

The delay of the launch of escort robot won't bring sharp dropdown in NPV, so the risk is affordable. Same conclusion applies to sales volume. More details in Appendix 8



Other Financial Risks Management

The company still faces the exchange rate risk and interest rate risk

Interest
Risk

USING FINANCIAL SWAP



Exchange
Risk

AVOID WITH FUTURES,
OPTIONS, FORWARDS AND
OTHER DERIVATES



Part V

Ethical Issue



Ethical Problem

Problem Illustration



Daniel Tong, a CEO and Operations Officer of Tiger Toys

- Discovered safety problem with Jungle Land figurines
- Ill products have been supplied to TT Limited, and sold into all markets.
- Tell Aimee Chan not to do anything for now.

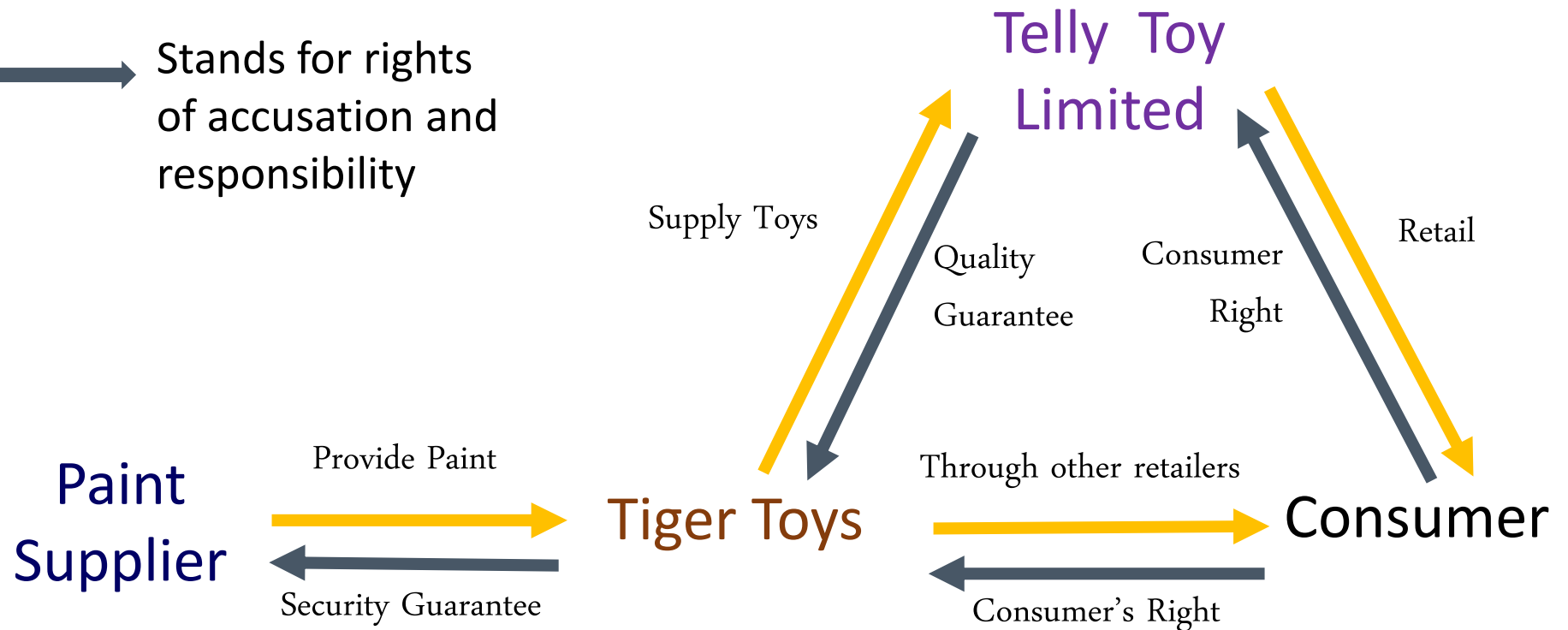
Aimee Chan, the second in command of Tiger Toys

- Carried out the Product safety investigation
- Whether to follow Daniel's instruction not to take any action



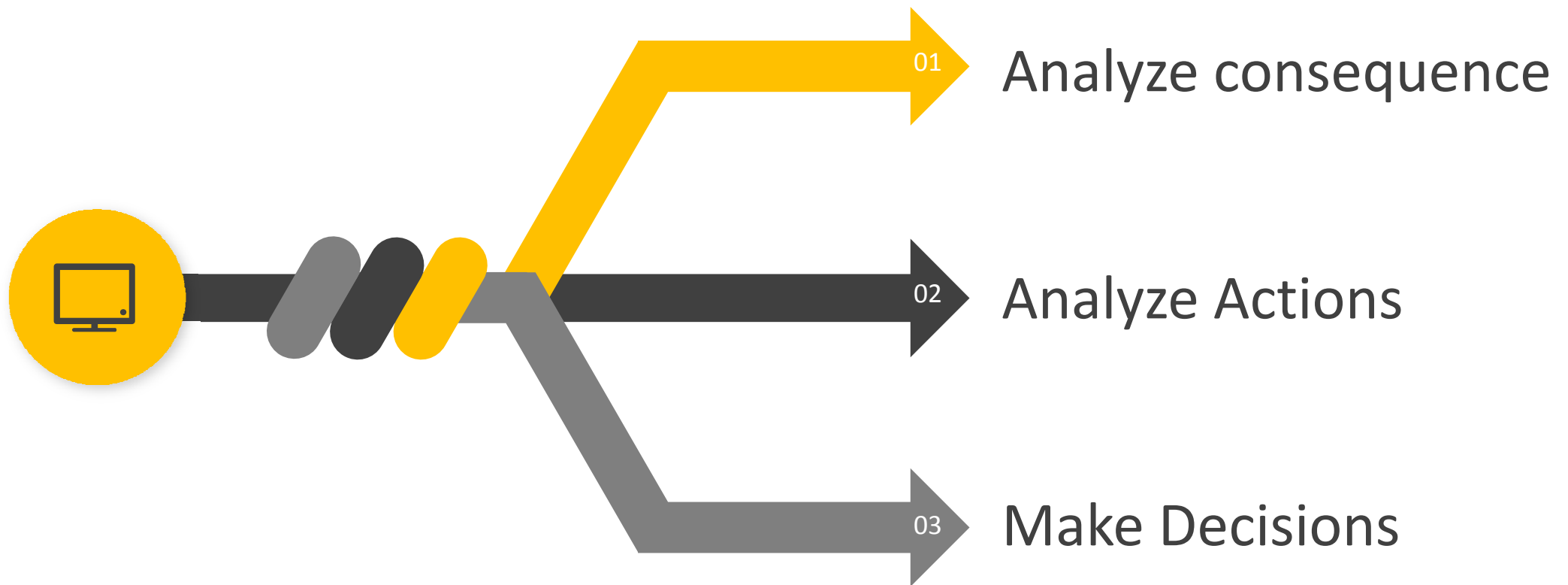
Relationship between the involved

- Stands for material and product flow
- Stands for rights of accusation and responsibility



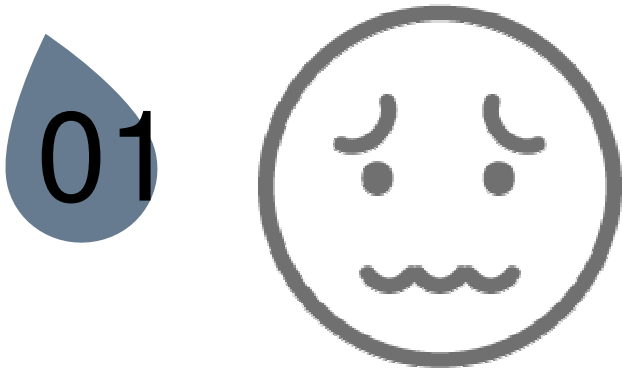
What should Aimee Chan do?

We analysis this through **three-steps method**:



THREE STEPS METHOD

1. Two consequences of Ethical dilemmas



Wait helplessly for the end

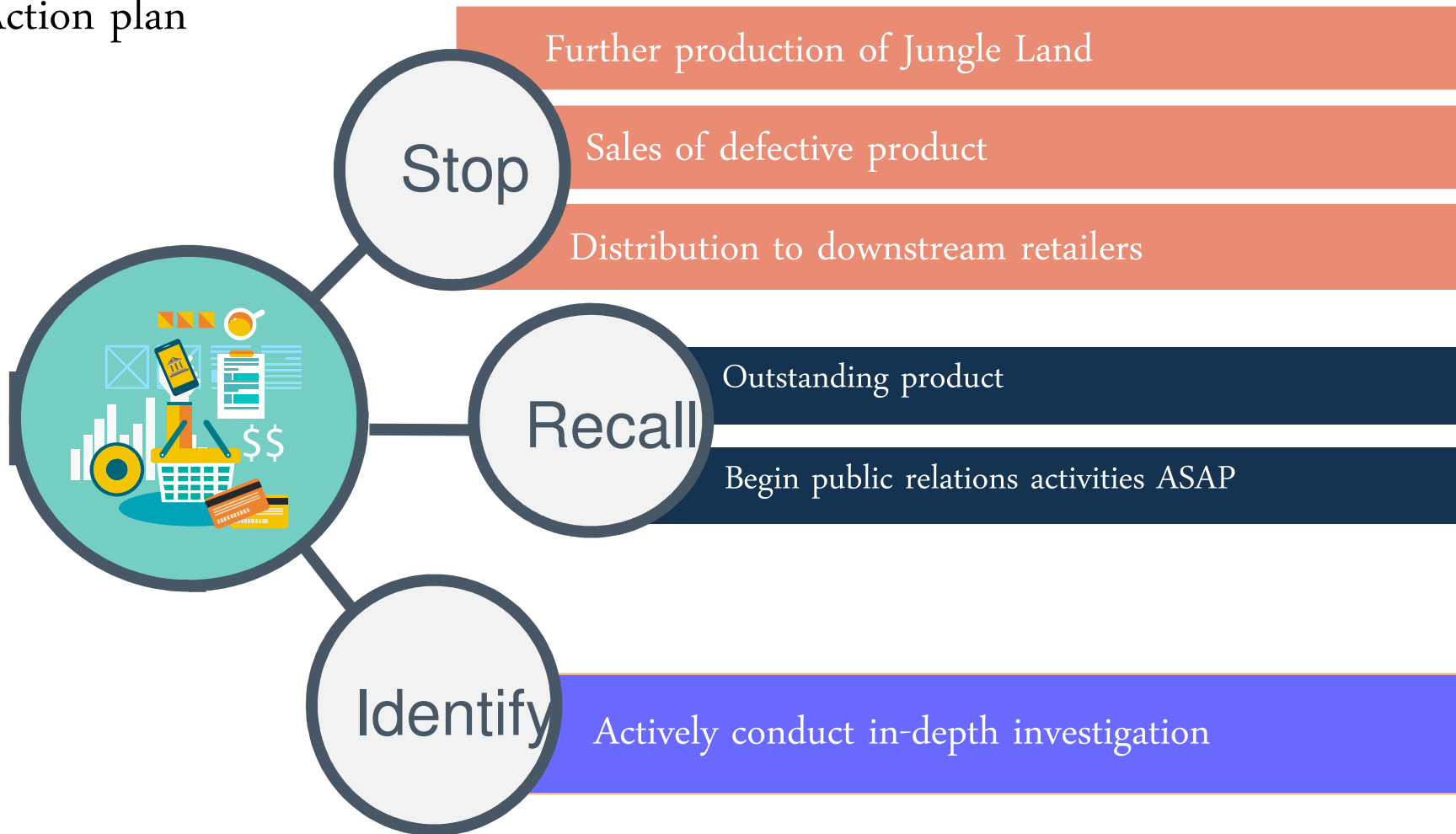


Taking active actions

From the perspective of the long-term development of the company, if the security incident occurs, the negative behavior of Daniel will cause greater loss to the company

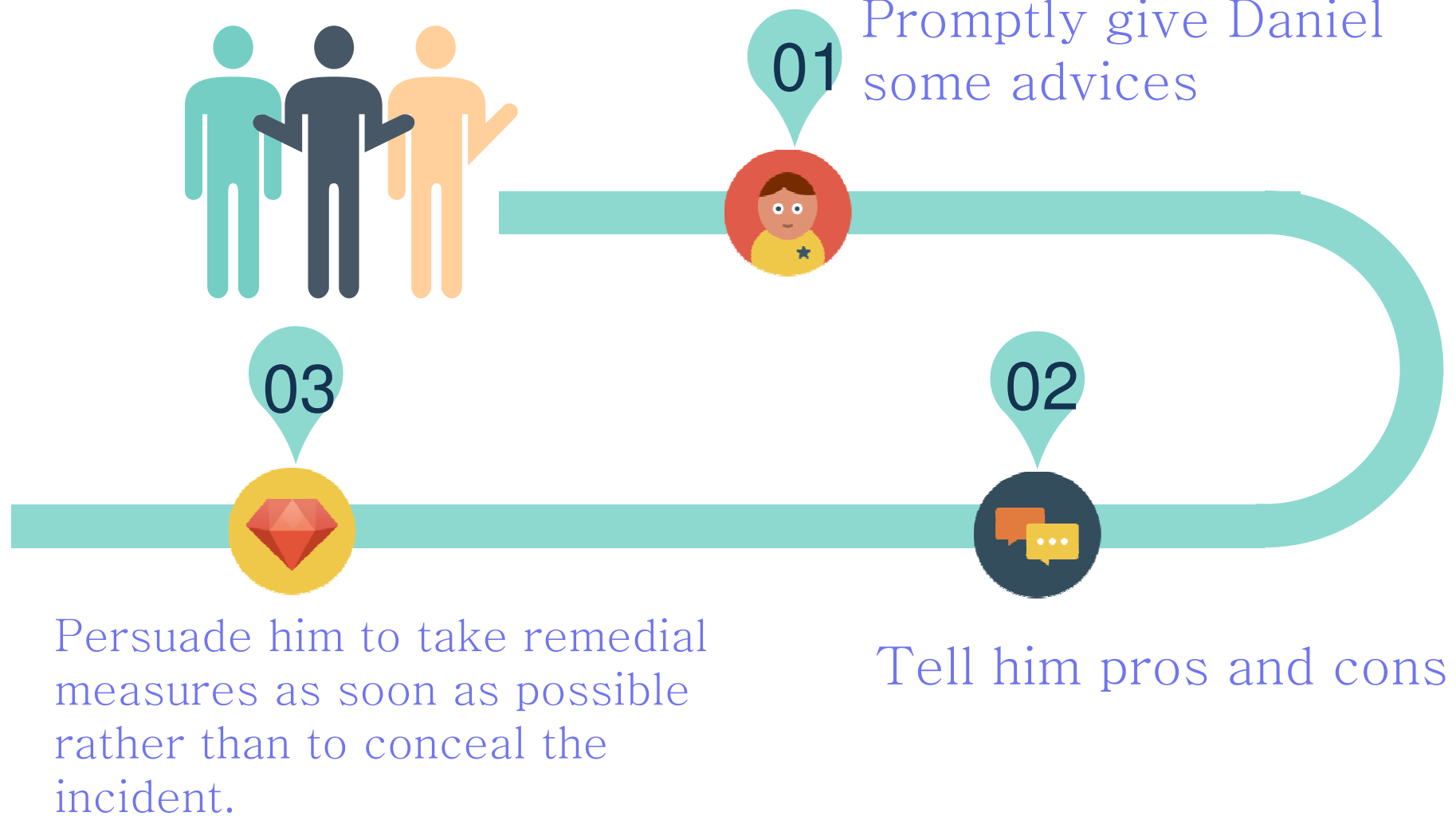
THREE STEPS METHOD

2.Action plan



THREE STEPS METHOD

3. Make decision





Part VI

Appendix

Appendix I .Price and Cost Structure Estimation(HK\$)

1.Escort Robot

	2017E	2018E	2019E	2020E	2021E
Unit Price	2,000	1,950	1,900	1,800	1,800
Sales Volume	54,200	69,376	86,026	101,511	119,783
Outsourcing technical cost	700.00	572.33	474.81	414.90	382.50
Outsourcing manufacturing cost	200.00	199.88	196.65	189.00	189.00
Raw Material Cost	260.00	261.30	259.54	242.10	238.50
Gross Profit Rate	42.00%	47.00%	51.00%	53.00%	55.00%
Sales Volume growth rate		28%	24%	18%	18%

2. Current Product

	2017E	2018E	2019E	2020E	2021E
Unit Price growth rate	6.80%	4.50%	2.50%	2.50%	2.50%
Sales Volume growth rate	4.90%	5.50%	4.90%	4.12%	3.37%
original production cost/unit price	33.32%	34.69%	34.39%	34.15%	34.39%
Intelligent cost/unit price	13.00%	10.50%	10.25%	9.50%	8.00%
Unit cost/Unit price	46.32%	45.19%	44.64%	43.65%	42.39%
Gross Profit Rate	53.68%	54.81%	55.36%	56.35%	57.61%
Revenue growth rate	12%	10%	8%	7%	6%

Appendix II : Sales Estimation Summary(HK\$000)

	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Revenue	1,158,689	1,277,425	1,481,920	1,601,145	1,716,592	1810510	1,917,474
Growth rate	12.03%	10.25%	16.01%	8.05%	7.21%	5.47%	5.91%
COGS	536,682	577,256	676,015	711,495	738,471	775,903	818,449
Gross profit	622,007	700,170	805,905	889,650	978,121	1,034,608	1,099,025
Gross profit rate(%)	53.68%	54.81%	54.38%	55.56%	56.98%	57.14%	57.32%
Net profit	40,706	110,635	195,812	260,635	335,791	379,847	421,554
Protit growth rate	-24.11%	171.79%	76.99%	33.10%	28.84%	13.12%	10.98%
Profit rate	3.51%	8.66%	13.21%	16.28%	19.56%	20.98%	21.98%
1.Escort Robot							
Revenue	0	0	108,400	135,283	163,450	182,720	215,609
COGS	0	0	62,872	71,700	80,090	85,878	97,024
Revenue growth rate	0%	0%	—	28%	24%	18%	18%
2. Current Product							
Revenue	1,158,689	1,277,425	1,373,520	1,465,862	1,553,143	1,627,790	1,701,865
COGS	536,682	577,256	613,143	639,795	658,381	690,024	721,425
Revenue growth rate	12%	10%	8%	7%	6%	5%	5%

Appendix III: Pro Forma Profit & Loss Statement(HK\$000)

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Revenue	1158688.81	1277425.44	1481919.77	1601144.71	1716592.42
Cost of Inventories Sold	(536681.65)	(577255.72)	(676014.58)	(711495.01)	(738471.35)
Gross profit	622007.15	700169.72	805905.20	889649.69	978121.07
Employee costs	(219550.32)	(218452.57)	(216049.59)	(213240.95)	(215373.35)
Occupancy costs	(107241.75)	(108314.17)	(109397.31)	(110491.28)	(111596.20)
Property repairs and maintenance	(16395.40)	(16739.70)	(17241.89)	(17414.31)	(17588.46)
Depreciation	(73739.95)	(74551.09)	(74625.64)	(75371.90)	(75371.90)
Reserch Expense	(44500.00)	(38092.00)	(39996.60)	(45996.09)	(40476.56)
Other costs	(91917.00)	(92008.92)	(94769.18)	(95716.88)	(96674.05)
Total operating costs	(553344.42)	(548158.45)	(552080.22)	(558231.40)	(557080.51)
Operating profit	68662.73	152011.27	253824.98	331418.29	421040.56
Finance costs	(19912.98)	(19514.72)	(19319.57)	(19280.93)	(18895.31)
Profit before taxation	48749.76	132496.56	234505.41	312137.36	402145.25
Taxation	(8043.71)	(21861.93)	(38693.39)	(51502.66)	(66353.97)
Profit after taxation	40706.04944	110634.6267	195812.0157	260634.6936	335791.2846

Appendix IV : Statement of financial position(HK\$000)

	2017	2018	2019	2020	2021
Assets					
Inventories	188799	204845	246167	254795	265551
Trade receivables and prepayments	34761	38326	51866	56045	60081
Cash and cash equivalents	147888	194893	269020	390599	586512
Non-current Asset	597013	599998	659997	725997	798597
Total Assets:	936431	1016382	1167342	1372766	1658381
Liabilities					
Accounts payables	162216	178840	192650	208149	223157
Tax liabilities	2815	7652	13543	18026	23224
Bank borrowings	13292	13691	14307	14736	15178
Non-current liabilities	329145	329145	319145	301450	291450
Total Liabilities:	507469	529327	539644	542361	553009
Total Equity:	428962	487055	625070	822129	1087987
Share capital and reserves					

Appendix V : Statement of Cash Flow(HK\$000)

	2017	2018	2019	2020	2021
Operating Activities					
Net income	40706	110635	195812	260635	335791
Depreciation & Amortization	73740	74551	74626	75372	75372
Less:Change in Working Capital	(58524)	(56677)	(91842)	(84661)	(79258)
Cash flow from operating activities	55922	128509	178596	251346	331905
Investing Activities					
Cash flow from Investing Activities	(15500)	(23708)	(30893)	(42138)	(49065)
Financing Activities					
Insurance and payment of loans	55000	0	(10000)	(17695)	(10000)
Dividends payment	(52542)	(57796)	(63576)	(69933)	(76927)
Cash flow from Financing Activities	2458	(57796)	(73576)	(87628)	(86927)
Net change in cash	42880	47005	74127	121579	195914
Beginning cash balance	105008	147888	194893	269020	390599
Ending cash balance	147888	194893	269020	390599	586512

Appendix VI : R&D Estimation(HK\$000)

	2017E	2018E	2019E	2020E	2021E
Reserch expense	44500	38092	39996.6	45996.09	40476.5592
Development	15500	23708	24893.4	22138.41	31064.6658
Total	60000	61800	64890	68134.5	71541.225



Appendix VII : Calculation of WACC

	Assumption Ratio:
Risk-free rate	3.20%
Rm	5.00%
Kd	5.50%
T	16.50%
Beta	1.54
Ke	10.88%
E/(D+E)	49.00%
D/(D+E)	51.00%
WACC	7.67%
Sustainable growth rate%	1.50%

Appendix VIII : Sensitivity analysis—WACC And Sustainable Growth Rate

Total company value(in million HK\$)		<u>WACC</u>						
		6.55%	7.05%	7.55%	8.05%	8.55%	9.05%	9.55%
<u>Sustainable growth rate%</u>	0.00%	3763.0	3742.2	3722.0	3702.2	3683.0	3664.3	3646.0
	0.50%	3955.0	3934.2	3914.0	3894.2	3875.0	3856.3	3838.0
	1.00%	4175.7	4154.9	4134.7	4115.0	4095.7	4077.0	4058.7
	1.50%	4432.2	4411.5	4391.2	4371.5	4352.3	4333.5	4315.2
	2.00%	4733.9	4713.2	4692.9	4673.2	4654.0	4635.2	4617.0
	2.50%	5094.0	5073.2	5053.0	5033.2	5014.0	4995.3	4977.0

Appendix IX : Scenario Analysis

The new product being proposed in 2019

Time:	2017E	2018E	2019E	2020E	2021E	2022E	2023E
EBIT	68663	152011	253825	331418	421041	450513	482049
Tax rate	0.165	0.165	0.165	0.165	0.165	0.165	0.165
EBIT*(1-tax rate)	57334	126930	211944	276735	351570	376180	402512
Plus:D&A	73740	74551	74626	75372	75372	79140	83098
Less : Increase in NWC	58524	56677	91842	84661	79258	81636	84085
Capital expenditure	15500	23708	30893	42138	49065	51518	54094
FCF	57050	121096	163835	225308	298619	322166	347431

The new product being proposed in 2020

EBIT	68663	152011	208297	313363	401264	411296	421578
Tax rate	0.165	0.165	0.165	0.165	0.165	0.165	0.165
EBIT*(1-tax rate)	57334	126930	173928	261659	335057	343433	352019
Plus:D&A	73740	74551	74626	75372	75372	79140	83098
Less : Increase in NWC	58524	56677	91842	84661	79258	81636	84085
Capital expenditure	15500	23708	30893	42138	49065	51518	54094
FCF	57050	121096	125819	210232	282106	289420	296938

The new product being proposed in 2021

EBIT	68663	152011	208297	267835	383209	392789	402609
Tax rate	0.165	0.165	0.165	0.165	0.165	0.165	0.165
EBIT*(1-tax rate)	57334	126930	173928	223643	319981	327980	336180
Plus:D&A	73740	74551	74626	75372	75372	79140	83098
Less : Increase in NWC	58524	56677	91842	84661	79258	81636	84085
Capital expenditure	15500	23708	30893	42138	49065	51518	54094
FCF	57050	121096	125819	172216	267030	273967	281098

Appendix X : NPV Analysis of Five Strategies

	2017E	2018E	2019E	2020E	2021E	NPV Of 5-years cash flow	Total Company value
Current Strategy	86856.08	92241.15	92241.15	98052.34	98605.79	365563	1403602
Consolidation	-102390	100689.28	105723.8	111009.9	115450.33	268170.2	1800498
New market	10856.08	12588.7	13469.91	14412.81	15421.7	57185.46	280056.1
Withdraw	7856.08	9474.11	10421.52	11255.25	12043.11	43620.36	202046
New product	57049.83	121095.94	163835.2	225307.9	298618.9	713490.1	4563556

Assumption: the sustainable growth rate after 5 years is 1.5%

Appendix XI : Estimation of Removing Warehouse(HK\$000)

Land Price in Dongguan	10.82/ m ²
Land Price in Hong Kong	242.87/ m ²
Estimated Warehouse Space	193.92 / m ²
The Capital Saving From Removing Warehouse	45000