

South Tuen Mun Government Secondary School  
BAFS\_Financial Management\_DSE\_SP

**SP1\_4.** Mr Lee retired two years ago and has kept the \$1 000 000 retirement fund in the form of a fixed deposit at an interest rate of 4.5% per annum. His friend suggests that investment in other financial products may yield a higher return.

- (i) Name **THREE** types of financial products available in the Hong Kong securities market that Mr Chan might consider. (3 marks)

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- (ii) Explain **TWO** factors Mr Lee should consider in deciding whether to invest in other financial products instead of keeping the entire amount in a fixed deposit. (4 marks)

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(c) In early 20X7, Mr Chan plans to close the factory in Hong Kong and form a new business in Shenzhen. All the workers of the Hong Kong factory will then be laid off

Propose TWO measures that Mr Chan could adopt to minimize the workers' dissatisfaction with their layoffs. (4 marks)

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**SP2\_4** Recommend two ways in which a company could manage its accounts receivable effectively. (4 marks)

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SP2\_7. Mr Wong has founded and managed Wai Fu Limited for more than 20 years. Mr Wong believes in exercising strict control over staff behavior and performance. He has introduced detailed work procedures and stringent rules and regulations. Very close supervision and severe punishments are imposed on staff to ensure their behavior and performance comply with the company's requirements. Furthermore, Mr Wong believes that, with such close supervision, there is no need to invest resources on staff training and development.

Over the last few years, a number of staff have left the company or retired. The education level and qualifications of the new recruits are generally better. Initially they were enthusiastic and often worked overtime for no extra pay. Later, they started to express dissatisfaction with their supervisors for strict staff control over minor matters, such as occasional late arrival of less than 5 minutes.

The number of customer complaints increased tremendously in the last two years, and the staff turnover rate reached 40% for the past 12 months. In addition, there has been a drastic drop in the company's sales and profits.

Mr Wong's son, David, has recently returned to Hong Kong from the US to take up the management of the company. After studying the situation carefully and meeting with some staff, David concludes that the company is faced with the problem of low staff morale and its first priority is to change the style of staff supervision.

David also proposes that training and development should be provided to all staff over three years but is not sure about the approach of offering the programs. He is told that hiring the service of a training consultancy firm would require an immediate payment of \$320 000 for the contract. Alternatively, if a professional trainer is employed to provide in-house training, the following payments (all made at the beginning of the respective year) will be required:

First year:	\$100000
Second	\$110000
Third year:	\$120000

(a) Explain why Wai Fu Limited is faced with the problem of low staff morale with respect to:

(i) Herzberg's dual factor theory (3 marks)

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(ii) McGregor's motivation theory (3 marks)

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(b) (i) Explain THREE benefits to Wai Fu Limited of providing training and development programs to staff. (6 marks)

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(ii) Describe the steps that Wai Fu Limited should adopt in the training process. (6 marks)

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(c) (i) Based on present value (PV) calculations, advise whether the company should hire a training consultancy firm or employ an in-house training professional. (Note: Assume the cost of capital is 8% per annum.) (2 marks)

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(ii) Suggest ONE financial factor that will cause Wai Fu Limited not to make the decision based on the PV results. (2 marks)

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(d) Discuss TWO non-financial factors that should be considered in deciding the approach of offering the training programs. (4 marks)

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SP2\_8. Starlight Hotel is a four-star hotel situated in Kowloon City near the former airport. The hotel offers more than 300 guest rooms, 6 restaurants and bars, as well as other entertainment facilities. With its strategic location, the hotel enjoyed a high occupancy rate. After the relocation of the airport from Kowloon City to Chap Lap Kok, the occupancy rate of the hotel has dropped over the years. Last year, the hotel recorded a net loss in its operation.

Raymond Kwok, General Manager of the hotel, is eager to turn the situation around. With the introduction of 'Individual Visit Scheme' and the recovery of long-haul travel, Raymond is still optimistic about the hospitality industry in Hong Kong. During a management meeting, Raymond asked Winnie Chan, Marketing Manager of the hotel, 'Do you have any suggestions that can turn our situation around?'

'One of the problems we are facing is the fluctuating demand. The occupancy rate of our hotel is satisfactory during the peak periods in July and October. I think the key to increase our profit is to boost the sales during off-peak periods,' Winnie replied.

'It sounds reasonable. Apart from improving our occupancy rate during off-peak periods, we can develop a membership scheme to boost the sales of our food and beverage outlets. Guests who have paid a yearly membership fee can enjoy discounts and other privileges in our restaurants and bars,' Raymond suggested.







Year		Marks																		
SPI Q4	<p><b>(i) Types of financial products available in the HK securities market:</b></p> <ul style="list-style-type: none"> <li>• shares</li> <li>• bonds</li> <li>• commercial papers or other notes</li> <li>• derivatives, e.g. futures, warrants and options</li> <li>• mutual funds</li> </ul> <p>(1 mark for each relevant type, max. 3 marks)</p>	4 marks																		
SPI Q4	<p><b>(ii) Factors to consider what to invest</b></p> <ul style="list-style-type: none"> <li>• expected return, e.g. dividend or coupon rate of the financial product(s)</li> <li>• risk-bearing ability, e.g. ability to suffer capital loss</li> <li>• liquidity of the financial product(s)</li> <li>• time and effort involved in monitoring the investment</li> </ul> <p>(2 marks for each relevant point, max. 4 marks)</p>	2 marks																		
SPI Q5	<p>(a) PV of Proposal 1 \$2 000 000 ÷ (1.1)<sup>3</sup> = \$1 5 02 63 0</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Calculation (\$)</th> <th>PV (\$)</th> </tr> </thead> <tbody> <tr> <td>Beginning of 20X7</td> <td>600 000</td> <td>600 000</td> </tr> <tr> <td>End of 20X7</td> <td>500 000 ÷ (1.1)</td> <td>454 545</td> </tr> <tr> <td>End of 20X8</td> <td>400 000 ÷ (1.1)<sup>2</sup></td> <td>330 579</td> </tr> <tr> <td>End of 20X9</td> <td>300 000 ÷ (1.1)<sup>3</sup></td> <td>225 394</td> </tr> <tr> <td></td> <td></td> <td><u>1 610 518</u></td> </tr> </tbody> </table> <p>(b) Mr Wong should adopt Proposal 1 because its time-weighted cost is lower than that of Proposal 2.</p>	Year	Calculation (\$)	PV (\$)	Beginning of 20X7	600 000	600 000	End of 20X7	500 000 ÷ (1.1)	454 545	End of 20X8	400 000 ÷ (1.1) <sup>2</sup>	330 579	End of 20X9	300 000 ÷ (1.1) <sup>3</sup>	225 394			<u>1 610 518</u>	
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SPI Q6	<p><b>(a) Reasons:</b></p> <ul style="list-style-type: none"> <li>• relatively low selling price</li> <li>• relatively high production cost</li> <li>• operating costs are high /</li> <li>• control on operating costs is ineffective</li> </ul> <p>(2 marks for each relevant reason, max. 4 marks)</p>																			
SPI Q6	<p><b><u>(b) comment on liquidity</u></b></p> <ul style="list-style-type: none"> <li>• the liquidity of the business is worse than the industry average</li> <li>• there are not sufficient liquid assets to meet its immediate debts</li> <li>• too much capital is tied up in stock</li> </ul> <p>(2 marks for each relevant comment, max. 4 marks)</p>																			

SPI Q6	<p><b>c) measures to minimize the workers' dissatisfaction with their layoffs</b></p> <ul style="list-style-type: none"> <li>• provide more generous compensation (more than statutorily required)</li> <li>• communicate and explain to all workers the reasons for the layoff</li> <li>• help laid off workers look for other jobs /</li> <li>• recommend the good workers to other furniture factories</li> </ul> <p>(2 marks for each relevant measure, max. 4 marks)</p>	
SPII Q4	<p><b>Ways to manage accounts receivable effectively:</b></p> <ul style="list-style-type: none"> <li>• establish a workable credit policy to screen customers before granting credit</li> <li>• establish a written policy and let each customer know in advance the company's credit terms</li> <li>• establish practice of sending invoices for payment promptly</li> <li>• establish immediate follow-up measures for those accounts that are overdue</li> </ul> <p>(2 marks for each relevant way, max. 4 marks)</p>	
SPII Q7	<p><b>(a) (i) Herzberg's dual factory theory:</b></p> <p>a command and control environment hampers the satisfaction of hygiene factors and does not cater for motivators; stringent rules and regulations may hinder the satisfaction of higher level needs e.g. growth and development, sense of achievement, etc.</p>	
SPII Q7	<p><b>(a)(ii) McGregor's motivation theory:</b></p> <p>mismatch with staff needs: Mr Wong is basically a Theory X entrepreneur who assumes that employees are inherently lazy and will avoid work if they can, but the new staff might have higher career expectations</p>	
SPII Q7	<p><b>(b) (i) Benefits of providing training and development program to staff:</b></p> <ul style="list-style-type: none"> <li>• enhance staff's commitment to the company</li> <li>• enhance knowledge and skills of staff</li> <li>• maximize individual productivity and potential</li> <li>• prepare staff for changes</li> </ul> <p>(2 marks for each relevant benefit, max. 4 marks)</p>	
SPII Q7	<p><b>(b)(ii) Steps in training process:</b></p> <ul style="list-style-type: none"> <li>• identify training needs</li> <li>• devise and implement training programs to meet the training needs revealed in training gap</li> <li>• measure the performance achieved after training</li> <li>• evaluate the cost effectiveness of the training programs</li> </ul> <p>(1.5 marks for each relevant step, max. 6 marks)</p>	

<p>SPII Q7</p>	<p><b>(c) (i)</b></p> <table border="0" style="margin-left: 40px;"> <tr> <td>First year</td> <td style="text-align: right;">\$100 000</td> </tr> <tr> <td>Second year <math>\\$110\,000/(1+8\%)</math></td> <td style="text-align: right;">101 852</td> </tr> <tr> <td>Third year <math>\\$120\,000/(1+8\%)^2</math></td> <td style="text-align: right;"><u>102 881</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>304 733</u></td> </tr> </table> <p>As the PV of employing a training professional is less than \$320 000, the cost of hiring a training consultancy firm, the company should choose to employ an in-house training professional.</p>	First year	\$100 000	Second year $\$110\,000/(1+8\%)$	101 852	Third year $\$120\,000/(1+8\%)^2$	<u>102 881</u>		<u>304 733</u>	
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<p>SPII Q7</p>	<p><b>(c) (ii)</b></p> <ul style="list-style-type: none"> <li>• the company is faced with tight cash position</li> <li>• high opportunity cost of the amount involved</li> </ul> <p>(2 marks for a relevant factor, max. 2 marks)</p>									
<p>SPII Q7</p>	<p><b>(d) non-financial factors in deciding to offer training course:</b></p> <ul style="list-style-type: none"> <li>• the range/specificity of expertise involved</li> <li>• other supporting factors e.g. venue, staff deployment</li> <li>• long term training needs</li> <li>• alignment with corporate culture</li> </ul> <p>(2 marks for each relevant factor, max. 4 marks)</p>									
<p>SPII Q8</p>	<p><b>(a) Risk Management Strategies:</b></p> <ul style="list-style-type: none"> <li>• risk avoidance: e.g. avoid offering rooms to guests whose identities are suspicious</li> <li>• risk prevention/reduction: e.g. protective security system</li> <li>• risk assumption: e.g. accept minor damage like broken glasses in food and beverage outlets, or set aside a reserve fund to cover loss</li> <li>• risk transfer: buying insurance against theft and fire</li> </ul> <p>(2 marks for each relevant strategy, max. 6 marks)</p>									
<p>SPII Q8</p>	<p><b>(b) Causes leading to unsatisfactory occupancy:</b></p> <ul style="list-style-type: none"> <li>• perishability, e.g. cannot stock up room service to meet seasonal demand</li> <li>• intangibility, e.g. poor customer service</li> <li>• inseparability, e.g. lack of proximity to prospective customers</li> <li>• heterogeneity, e.g. quality level of food and accommodation service is not steady</li> <li>• as skills and experience of staff members vary</li> </ul> <p>(2 marks for each relevant cause, max. 6 marks)</p>									

<p>SPII Q8</p>	<p><b>(c)Marketing plan:</b></p> <ul style="list-style-type: none"> <li>• situational analysis and marketing objectives, e.g. SWOT analysis, number of members to be recruited</li> <li>• selection of target market and positioning, e.g. high-income customers who frequently dine out</li> <li>• setting the marketing mix ( 4P), e.g. competitive membership fee, personal selling, members' privileges, online booking</li> <li>• implementation and evaluation, e.g. corrective actions to be taken if there is any deviation between the results and the objectives</li> </ul> <p>(2 marks for each element, max. 8 marks)</p>	
<p>SPII Q8</p>	<p><b>(d) Ways of increasing sales during off-peak periods:</b></p> <ul style="list-style-type: none"> <li>• reduce prices in off-peak periods to stimulate sales</li> <li>• offer value-added services, e.g. free internet service in the rooms</li> <li>• change some of the hotel suites into service apartments</li> <li>• offer promotion package to local residents during weekends</li> <li>• promote other services, e.g .. hire of venue for business conferences or exhibitions, food festivals</li> </ul> <p>(2 marks for each relevant way, max. 4 marks)</p>	