

# **BARFS** *in the* **NEW WORLD**

*(Business, Accounting and Financial Studies)*

## **Business Environment & Introduction to Management**

*(Compulsory Part)*

**1**

**Teacher's  
Book**

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**Second Edition**

# Chapter 1 Hong Kong Business Environment

## Business Aids 1

### Hong Kong Ranked First in Globalisation Index

In February 2013, a multinational accounting firm released the results of one of its studies, the Globalisation Index. Hong Kong ranked first in the study for three consecutive years.

The study included 60 largest economies in the world and measured their extent of globalisation in terms of five broad criteria, including openness to trade, capital flows, and exchange of technology and ideas. The representative of the accounting firm said that the HKSAR government was active in attracting foreign investments. The development of the six priority industries encouraged the advancement of knowledge and technology. In addition, Hong Kong was an international financial centre. It attracted more and more Mainland enterprises to become listed in Hong Kong. The flow of capital across borders in Hong Kong kept increasing at a steady rate.

However, several factors, including congested living conditions and air pollution, discouraged overseas talent from working in Hong Kong. The representative of the accounting firm suggested that the HKSAR government should improve housing, education and environment in Hong Kong.

#### Questions:

1. According to the above information and your knowledge, discuss the factors contributing to the high extent of globalisation in Hong Kong.

Hong Kong has long been a free port and trading activities are flourishing in Hong Kong. Goods from all over the world can be found there. / There is no foreign exchange control in Hong Kong. Capital all over the world can flow into and out of Hong Kong easily. / The HKSAR government promotes the development of knowledge-based economy. This facilitates the advancement of technology. / Hong Kong has a comprehensive telecommunications network. It fosters the exchange of ideas between people. (Any three)

2. According to the above information, explain the impacts of globalisation.

Increased flow of capital across borders: As barriers to trade in goods and services are reduced, it is easier to start up business all over the world. Investors can also participate in investment activities all over the world.

Exchange of talent: Owing to improved transportation network, it is easier for talent to work overseas. It stimulates the exchange of talent between countries and regions.

Transfer of technology: Enterprises start up business in various countries and regions. They would introduce knowledge and technology to the countries and regions.

3. Do you support globalisation? Why? Discuss with your classmates.  
Any reasonable answers.
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## Business Aids 2

### Hong Kong Manufacturers Face Rising Costs When Operating in the Mainland

In the 1980s, many Hong Kong businesses moved their plants to the Guangdong Province, especially the Pearl River Delta, to lower production costs. However, many of them face rising production costs in recent years.

In the last few years, the minimum wage level in many provinces and cities in the Mainland has been increasing. It greatly increases businesses' cost burden. Moreover, the education level of young people in the Mainland has improved. They are not willing to work in the manufacturing sector. It is difficult to recruit workers despite increased wage level. Furthermore, owing to the economic recession in Europe and the US, Hong Kong manufacturers that rely on export trade face a drop in orders. Meanwhile, Renminbi keeps appreciating. Many of them have a hard time remaining alive.

To reduce the impacts of rising production costs, some Hong Kong manufacturers thought of relocating their plants away from the Guangdong Province to South-east Asian countries. Some tried to explore new business opportunities by developing their own brands and opening up the Mainland market.

#### Questions:

1. According to the above information, what difficulties do Hong Kong manufacturers face when operating in the Mainland?

Rising labour costs: The minimum wage level in many provinces and cities in the Mainland has been increasing in the last few years.

Shortage of labour: It is difficult to recruit workers as young people in the Mainland are not willing to work in the manufacturing sector.

Poor economic conditions: Hong Kong manufacturers face a drop in orders from Europe and the US due to the economic recession. Meanwhile, Renminbi has been appreciating in the last few years. All these strike the manufacturers' profits.

2. According to the above information and your knowledge, analyse, in terms of economic and political factors, the reasons for Hong Kong businesses to open up the Mainland market.

Economic factors: The Mainland economy is growing continuously. People in the Mainland thus enjoy a rising income level and they are more willing to spend. By developing into the Mainland market, businesses can increase profits and reduce reliance on orders from Europe and the US.

Political factors: The Mainland is active in helping Hong Kong businesses develop the Mainland market. For example, after the Mainland and Hong Kong signed CEPA, it is easier for Hong Kong businesses to open up the Mainland market and grasp business opportunities.

3. Besides the measures mentioned above, how can Hong Kong manufacturers cope with the difficulties they are facing when operating in the Mainland? Discuss with your classmates.

Any reasonable answers.

## Answers to Short Questions

18. (a) Primary production. It is the direct extraction of natural resources. (1)  
Farming involves the use of natural resources such as land and sunlight to produce agricultural products, i.e. crops. (1)

**(Total: 2 marks)**

- (b) Primary production provides raw materials for secondary production and tertiary production. (1)  
However, primary production is insignificant in Hong Kong's economy since primary production in Hong Kong is underdeveloped due to the lack of natural resources. (1)

**(Total: 2 marks)**

19. Businesses can stimulate economic activities and promotes the economic development as a result. (1)  
They engage in various economic activities such as manufacturing, trading and retailing to make a profit. More products and services provided by businesses are thus available in the market. (1)

Businesses can stimulate people's consumption in the market. (1)  
By working in the business sector, people earn an income for consumption and enjoy a better life. More variety of goods and services are provided by businesses in order to attract customers. (1)

Businesses can provide employment opportunities and maintain a high employment level. (1)

Businesses rely on staff to maintain daily operations and provide goods and services for customers. A lot of employment opportunities are thus created. (1)

Businesses can provide the government with a huge sum of tax revenue. (1)

Businesses need to pay profits tax if they earn a profit. Transactions of real property and shares in the business sector also increase government revenue from stamp duty. The government can use the tax revenue to promote further development of Hong Kong economy. (1)

*(Any three)*

**(Total: 6 marks)**

20. Jewellery (1)  
 Clocks and watches (1)  
 Textiles (1)  
 Cosmetics (1)  
*(Any three)*

**(Total: 3 marks)**

21. Howard should be aware of the financing cost, especially interest rate. (1)  
 He needs to have sufficient funds to initiate the business and support its daily operations. He will probably need to borrow loans to satisfy the financial need and he should consider the cost of borrowing loans. (1)

Howard should consider the exchange rate of Renminbi. (1)

In recent years, costs of purchases and transportation keep increasing as a result of the appreciation of Renminbi. Howard has to pay attention to the exchange rate of Renminbi so as to take prompt actions to save costs or adjust selling prices if necessary. (1)

Howard should consider the rental level. (1)

The shop rental level in Mongkok is high due to the huge amount of shoppers there. As Howard has limited funds, he should assess if the shop can withstand the rental level. (1)

*(Any two)*

**(Total: 4 marks)**

22. (a) From businesses' perspective, globalisation refers to the reduction and removal of barriers between national borders in order to facilitate the flow of goods, capital, services and labour. (2)

**(Total: 2 marks)**

- (b) Businesses can practise outsourcing more easily. (1)  
 Businesses can outsource production processes to foreign businesses to reduce production costs and take advantage of technology that foreign businesses possess. (1)

Businesses can raise and allocate capital all over the world more easily. (1)  
Globalisation stimulates international flow of capital as the barriers of trade of goods and services are reduced. It is easier for businesses to raise capital in different countries and allocate funds to branches in other countries. (1)

Businesses can expand their sales network to other countries. (1)  
They can take advantage of the improved telecommunications and transportation networks to sell their products all over the world and reach customers in different countries more easily. (1)  
(Any two)

**(Total: 4 marks)**

23. World Trade Organization (WTO). (1)  
Its objectives are to break through trade barriers and allow foreign trade to enter domestic markets. (1)

Asia-Pacific Economic Co-operation (APEC). (1)  
Its objectives are to strengthen the APEC member economies by pooling resources within the Asia-Pacific region and achieve efficiency. (1)

**(Total: 4 marks)**

24. Business activities increase the revenue of the government. (1)  
When the economy is flourishing, people become wealthier and the number of real property and share transactions rises. As a result, the government can collect more profits tax as well as stamp duty. (1)

Business activities help the government to maintain a more stable social environment. (1)  
With the growth of businesses, business activities increase and the employment level will be higher. People can earn more income and enjoy a higher standard of living. This enhances social stability and helps the government sustain political stability. (1)

**(Total: 4 marks)**

25. In 2003, the Mainland and Hong Kong signed the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA). (1)  
The Arrangement provides a channel for Hong Kong businesses entering the Mainland market. Hong Kong-made products and Hong Kong-based services companies can gain easier access to the Mainland market. (1)

Hong Kong signed the Pan-Pearl River Delta Regional Cooperation Framework Agreement with Macau and nine Mainland provinces/regions in 2004. (1)  
The Agreement aims to increase the economic influence and competitiveness, and speed up the economic co-operation and development within the Pan-Pearl River Delta Region. (1)

The HKSAR government tries to improve the transportation network between Hong Kong and the Mainland. (1)

For example, the Guangzhou-Shenzhen-Hong Kong Express Rail Link (Hong Kong Section), which is under construction, will shorten the transportation time between Hong Kong and cities in the Mainland. It helps Hong Kong build a closer economic relationship with the Mainland and maintain competitive edge. (1)  
(Any two)

**(Total: 4 marks)**

26. **Exchange of talent:**

Under CEPA, Hong Kong professionals in sectors including accounting and legal have an easier way to enter the Mainland market. (1)

The mutual recognition of professional qualifications between Hong Kong and the Mainland promotes the exchange of talent. (1)

**Flow of capital:**

Under CEPA, the Mainland lowered the threshold for entering the Mainland market. Thus, it is easier for some Hong Kong industries to enter the Mainland market. (1)

It attracts Hong Kong businesses to explore opportunities in the rapidly growing Mainland economy. It also enhances the flow of capital between Hong Kong and the Mainland. (1)

**(Total: 4 marks)**

27. (a) Globalisation. (1)

It refers to the reduction and removal of barriers between national borders to facilitate the flow of goods, capital, services and labour. People from one country can gain access to people in other parts of the world easily when doing business. (1)

**(Total: 2 marks)**

(b) Owing to improved telecommunications network, businesses like Grape Corporation can approach customers all over the world by setting up an online shop. (1)

It is thus easier for businesses to sell their products and expand their markets all over the world. (1)

Under the influences of globalisation, it is easier for a business to set up branches in different places and countries. (1)

As a multinational corporation, Grape Corporation operates branches in over 80 countries and regions. It may also outsource several production processes, for example, assembling, to foreign businesses to save costs. (1)

**(Total: 4 marks)**

28. Hong Kong has been practising free trade policy for a long time. (1)

There is no import quota on goods and imported goods are tariff-free. Moreover, there is no foreign exchange control in Hong Kong. Money is free to flow into and out of Hong Kong. It facilitates foreign investments. (1)

The HKSAR government has been practising simple taxation system with low tax rate. (1)  
There are only three direct taxes in Hong Kong, namely profits tax, salaries tax and property tax. Besides, only Hong Kong-sourced income is chargeable to tax. All these reduce the financial burden of businesses when operating in Hong Kong. (1)

Hong Kong has a good geographical location and it brings a lot of benefits to trading businesses operating in Hong Kong. (1)  
Hong Kong is situated at the southern coast of the Mainland and is on the Far East trade routes. Goods from the Mainland can be exported from Hong Kong to other places easily. Goods from overseas can also be imported to the Mainland through Hong Kong. (1)

The HKSAR government has been putting effort to improve the infrastructure in Hong Kong. (1)  
Comprehensive infrastructure facilitates the transport of goods. Businesses can save delivery time and costs. (1)  
*(Any three)*

**(Total: 6 marks)**

29. (a) International trade organisations take steps to eliminate trade barriers, handle trade disputes and hold forums for trade negotiations. (1)  
Businesses face fewer restrictions when expanding into new markets. It thus promotes economic globalisation as multinational corporations can set up business over the globe. (1)

International trade organisations enhance the communication between countries and regions. (1)  
As countries and regions have closer relationship, it is easier to develop international trade and the global economy becomes more integrated and interdependent. (1)

**(Total: 4 marks)**

- (b) After joining WTO, the import tariffs in China decreased and the business environment in China has been improving. (1)  
As most Hong Kong manufacturing businesses have factories in the Mainland, they can benefit from expanding into foreign markets. (1)

China takes steps to open the services sectors under the WTO agreement. (1)  
Hong Kong's tourism, trading and logistics, financial and telecommunication industries can expand into the market of China more easily. (1)

After joining WTO, China loosens restrictions on entering the market by foreign enterprises. (1)  
The ideal geographical location makes Hong Kong a gateway for foreign enterprises to enter the market of China. (1)  
*(Any two)*

**(Total: 4 marks)**



## Chapter 2 Forms of Business Ownership

### Business Aids 1

#### Privatisation Proposal of Property Developer

In November 2013, a Mainland property developer, which is listed in Hong Kong, released an announcement expressing that its major shareholder offered \$1.8 per share to privatise the company.

According to the announcement of the company, the major shareholder considered that the depressed price of the company's shares had had an adverse impact on the company's reputation, thus affecting its business and staff morale. In addition, the announcement pointed out that the low circulation of the shares for a significant period of time was not beneficial to investors. The cancellation price \$1.8 per share was 45% higher than the closing price on the last trading day before the announcement of the proposal. However, it was still much lower than its issue price.

Investment analysts held divergent views towards the privatisation proposal. Some expressed that the proposal was not attractive to minority shareholders. Some were concerned that the company would lose an important source of financing after privatisation. This may have an adverse impact on the company's financial conditions in the future.

#### Questions:

1. According to the above information and your knowledge, how can the company and investors benefit from the privatisation proposal?

Company: The depressed price of the company's shares had damaged the public's confidence in the company, thus affecting the company's reputation. The implementation of the proposal would eliminate such impacts. In addition, the company can keep its financial information secret and enjoy greater autonomy on decision-making after privatisation.

Investors: To those who held the company's shares, the proposal would reduce their losses. In addition, the circulation of the shares in the stock exchange has been low for a significant period of time. This made it difficult for investors to sell the shares and they might incur a loss. The proposal provided an opportunity for investors to realise their investments in cash.

2. How would the sources of financing of the company be affected after privatisation?

A listed company can raise funds from the public by issuing shares on the stock exchange. It is relatively easy for listed companies to raise funds. After privatisation, the sources of financing of the company would be limited. It may have difficulty in raising funds in the future.

3. If you were the shareholder of the above-mentioned company, what would you consider when evaluating the privatisation proposal? Discuss with your classmates.

Any reasonable answers.

## Business Aids 2

### Hung Fook Tong Changed Its Operation Model

Hung Fook Tong, a local herbal tea brand, operated as a franchising business more than ten years ago. It had up to 70 branches, of which 80% were run by franchisees and 20% by Hung Fook Tong itself.

After the Asian financial crisis in 1997, some of the franchisees found it hard to maintain the business and earn profits. They sold products other than herbal tea in their branches to increase turnover. However, this caused considerable damage to the brand image of Hung Fook Tong. The sales performance of Hung Fook Tong was also severely affected.

Hung Fook Tong later restructured its operations and took back all the franchises. The company changed its management strategies and opened branches in housing estates and along MTR stations in order to provide quality products and comfortable environment for customers.

#### Questions:

1. According to the above information, in what way did Hung Fook Tong operate over ten years ago? Why did the company decide to change this operation model?

Hung Fook Tong ran as a franchising business more than ten years ago. It later found that some franchisees sold products other than herbal tea without approval, which caused an adverse impact on the brand. Thus, Hung Fook Tong changed its operation model.

2. With respect to the case of Hung Fook Tong, what problems do franchisors face?

As there are many franchisees, franchisors may not be able to supervise all of them. If franchisees provide services or sell goods that are not up to standard, the brand name will be severely affected.

3. What measures can be taken by a franchisor to supervise franchisees?

Franchisors can sign an agreement with franchisees to make sure that the franchisees run their businesses as required. Franchisors can evaluate franchisees regularly and terminate the contract with franchisees who violate the agreement. Franchisors can provide additional assistance to franchisees who have good business performance and punish those who violate the agreement.

## Answers to Short Questions

18. A sole proprietorship is owned by one person (i.e. sole proprietor) only. He/she can make decisions himself/herself in a short period of time. (1)

A sole proprietorship is usually small in scale. The sole proprietor usually has direct contact with customers. (1)

A sole proprietorship is not a separate legal entity and thus it does not have continuity. If the sole proprietor retires, goes bankrupt or dies, the business will be terminated. (1)

The procedure for setting up a sole proprietorship is easy and the set-up cost is also low. (1)  
(Any three)

**(Total: 3 marks)**

19. A sole proprietorship has higher flexibility in management than a partnership since the sole proprietor can make decision on his/her own while partners in a partnership have to reach a consensus for business decisions. (1)

A sole proprietor can easily transfer the business to others. If a partner wants to transfer the ownership to others, he/she must obtain approval from other partners. (1)

Partners have collective responsibility for the partnership. If one partner makes a wrong decision, the other partners will be responsible for the consequences. (1)  
(Any two)

**(Total: 2 marks)**

20. A listed company can enjoy wider source of capital. (1)  
They can issue new shares and raise funds from the public. In addition, there is no upper limit for the number of shareholders in a listed company. (1)

A limited company can establish goodwill and enhance brand awareness in the minds of the public by being listed on the stock exchange. (1)

It can then maintain its competitive edge and gain more market share. (1)

It can have more resources to improve its performance. (1)  
Since it enjoys a wider source of capital, it has more resources for further development, such as expansion. It can also employ professionals to manage the company, which can improve the company's operational efficiency. (1)  
(Any two)

**(Total: 4 marks)**

21. A joint venture is usually a limited company and has its own legal status. (1)  
It is independent of the parties who formed the joint venture. Its assets and liabilities belong to the joint venture itself. (1)

A joint venture is jointly controlled by the parties that set up the joint venture. (1)  
They usually take part in the management of the joint venture and contribute capital, assets or technology to the joint venture. They must reach a consensus when important decisions are made. (1)

**(Total: 4 marks)**

22. A multinational corporation (MNC) enjoys a wider source of capital. (1)

MNCs usually enjoy economies of scale by their large scales of production. (1)

MNCs may employ professionals to manage the business and increase operational efficiency. (1)

MNCs usually automate production processes and make use of advanced technology to reduce production cost. (1)

(Any three)

**(Total: 3 marks)**

23. Many multinational corporations are listed companies. They can raise funds from the public by issuing shares and bonds. (1)

Multinational corporations can obtain funds by borrowing bank loans. (1)

If multinational corporations have retained profits, they can use the funds for operations and expansion. (1)

**(Total: 3 marks)**

24. (a) The Transport Department is a government department and thus a public enterprise. (1)

**(Total: 1 mark)**

- (b) Public enterprises aim to provide public services to the public. The public can enjoy quality and essential goods and services at an affordable price. (1)

Public enterprises can gain financial support and receive latest information from the government, which helps set up future plans. (1)

Public enterprises are large in scale. It is easier for them to obtain favourable terms and conditions of loans and purchase, which can lower operational costs and save taxpayers' expenses. (1)

*(Any two)*

**(Total: 2 marks)**

25. A limited company is usually large in scale and has a more complicated organisational structure. (1)

More people are involved in decision-making process. It takes a long time to reach a consensus among them about a decision. (1)

Since more people are involved in decision-making, conflicts may easily break out. (1)

**(Total: 3 marks)**

26. (a) Alice and her friends need not take legal responsibility for the business. (1)

A limited company has its own legal entity. Shareholders are not liable for legal charges against the company. On the contrary, partners have to take the legal responsibility for the partnership. (1)

Alice and her friends can enjoy limited liability for the business. (1)

They will only lose the capital invested in the company in case of business failure. On the other hand, partners may need to use personal assets to repay the debts for the partnership in case of dissolution. (1)

It can ensure the continuity of the business. (1)

A limited company can continue its operations despite the changes in ownership such as withdrawal and admission of shareholders. For partnership, it will be terminated if any general partner goes bankrupt, dies or withdraws. (1)

*(Any two)*

**(Total: 4 marks)**

- (b) Partners are responsible for the management of the partnership (except limited partners). They have to make the major business decisions and take care of the partnership's operations. (1)

In a limited company, the management and ownership are usually separated. Shareholders generally do not take part in daily operations of the company. They elect a board of directors to manage the company. (1)

**(Total: 2 marks)**

27. (a) Frontier could reduce its business risks in developing new products. (1)  
By forming a joint venture, the risks could be shared among Frontier and Mango.  
Frontier did not need to bear all the risks involved in developing new tablet computers. (1)

A joint venture has a wider source of resources to develop new products. (1)  
After the joint venture "Zeus" was formed, both companies would provide resources,  
such as funds, staff and technology to develop new tablet computers. (1)

It was easier for Frontier to enter the market of tablet computers. (1)  
Frontier was a mobile phone manufacturer. It might not be familiar with the market  
of tablet computers. By forming a joint venture with the consumer electronics brand  
Mango, Frontier could acquire more information of the market. (1)  
(Any two)

**(Total: 4 marks)**

- (b) The two companies were not sharing all their resources due to lack of trust. (1)  
Mango refused to share its technology because it tried to avoid its own technology  
being seized by Frontier. Therefore, "Zeus" cannot fully utilise the resources of the  
two companies. (1)

Dispute might break out and hinder the cooperation among the two companies. (1)  
The management of Frontier disagreed with Mango's approach which focused on  
marketing strategy. Since the two companies had different views on the development  
of "Zeus", they might not be able to concentrate their resources in one aspect and  
resulted in inefficient use of resources. (1)

**(Total: 4 marks)**

28. (a) Usually, the franchisor has established a reputation for the brand and built up  
customer loyalty. (1)  
It is easier for Albert to attract customers and make a profit in a short period of time. (1)

The franchisor will provide advice and support necessary for the operations of the  
shop to Albert. (1)  
Albert can make use of franchisor's resources and experience in operations to reduce  
the chance of failure. (1)

The franchisor will set the service standard for franchisees. (1)  
It will help Albert set up an effective management system within a short period of  
time. (1)  
(Any two)

**(Total: 4 marks)**

- (b) Albert has to follow the rules of doing business as imposed by the franchisor, such as products and decoration of the shop. (1)

Albert has to pay a certain percentage of turnover, as specified in the franchise agreement, to the franchisor as management and promotion fees on a regular basis. (1)

**(Total: 2 marks)**

29. (a) Mr. Poon's fast food shop is a sole proprietorship. (1)

**Disadvantages of a sole proprietorship**

The owner has to bear unlimited liability for the business and repay the debts for the business when necessary. (1)

The owner has to bear legal responsibility for the business since sole proprietorship is not a separate legal entity. (1)

The business lacks continuity and will be terminated if the owner dies, retires or goes bankrupt. (1)

The owner has heavy workload as he has to make all the business decisions and take part in daily operations. (1)

The business's source of capital is narrow. It is obvious that such kind of business has limited resources and has a hard time competing with large corporations. (1)  
(Any three)

**(Total: 4 marks)**

- (b) Mr. Poon should develop a close relationship with customers by understanding their tastes and preferences. (1)  
He can then customise menu to suit customers' tastes of food and increase their satisfaction. (1)

Mr. Poon should maintain a close relationship with employees. (1)  
It helps boost staff morale and motivate the employees to provide better services. By improving the quality of services, customers are more willing to stay with the business. (1)  
(Or other reasonable answers)

**(Total: 4 marks)**

- (c) Mr. Poon is liable for the compensation personally. (1)  
Since sole proprietorship is not a separate legal entity, the sole proprietor is responsible for any legal charges against the business. If the customer files a lawsuit, Mr. Poon is the one who is obligated to the legal consequences. (1)

**(Total: 2 marks)**

30. (a) Miss Lee and her friends can set up a private limited company. (1)  
They can enjoy limited liabilities so as to minimise the loss in case of business failure. (1)

**(Total: 2 marks)**

- (b) Shareholders of a limited company enjoy limited liability. (1)  
When the company fails, the losses of Miss Lee and her friends are limited to what they have invested in the company. They are not required to repay the debts of the company with personal assets. (1)

A limited company is a separate legal entity. (1)  
If the company is sued, Miss Lee and her friends are not responsible for the legal charges. (1)

As a limited company is a separate legal entity, it has continuity. (1)  
Even when any one of the shareholders withdraws, goes bankrupt or dies, the continuity of the company will not be affected. (1)

A limited company has wider source of capital. (1)  
More shareholders can join and contribute capital to the business. (1)  
(Any three)

**(Total: 6 marks)**