



LEVEL 7 ASSESSMENT SPECIFICATION

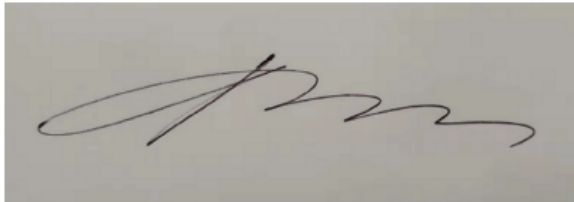
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Academic honesty / referencing:	Academic honesty is required. In the main body of your submission you must give credit to authors on whose research and ideas your work is based. Append to your submission a reference list that indicates the books, articles, etc. that you have used, cited or quoted in order to complete this assessment.		

UWTSD MBA (Nov 2018 intake)
SBMA7138 Marketing Management

Assignment Title:

A study report for TK Group (Holdings) Limited
financial resources management

“I, Kwok Man Kam, Ken, student ID number 1812206, certify
this work is the result of my own investigations, except where
otherwise stated. All references have been duly cited”

A handwritten signature in black ink on a light grey background. The signature is stylized, starting with a large loop and ending with a series of horizontal strokes.

Signed:

Date: 18th August 2019

Executive Summary

This report is based on TK Groups (Holding) Limited (Stock code: 02283) to analysis the company recent situation, the financial background and ratios and the future investment project plan. And based on the above details to make recommendations and suggestions for the company.

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1. Introduction

1.1 Company background

TK Group (Holdings) Limited (TK Group or TK) (Tkmold.com, 2019) is a global leading one-stop plastics solutions provider, dedicated to the researching development and manufacturing plastic molds and parts in Smart home, Smart phone, Packaging, Medical, Healthcare and Precise electronics. Established in 1983, Hong Kong. After 36 years of development, TK Group now is a well-known enterprise in molds making and plastic injection. An independent marketing researching company IPSOS reported that the TK's plastic mold business revenue was ranking No. 1 in the MT3 level suppliers in China. TK Group currently owned 4 production bases, the gross floor area over 200,000 square meters. Headquarters is located in Shenzhen, other 3 factories in Huizhou, Suzhou and Germany.

In December 2013, TK was successfully listed on the main board of Hong Kong Stock Exchange in 2013, stock code: 2283. TK Group issued 200,000,000 shares, 90% of the shares is under the international market and 10% of the shares is in the Hong Kong market with the final Offer Price \$1.25 per share (Gtja.com.hk, 2019). The oversubscription in Hong Kong market was 3.33 times of the total shares that the company issued. After the deduction of the underwriting fees and other expected expenses payable by the company, the net proceeds from the Global Offering to be received is around \$233.2 million. The shares that held by the company and companies' partners are 90.32% and the remaining 9.68% shares are held by public (Tkmold.com, 2019).

TK Group provides a range of services to its customers, such as products analysis, tooling building, dimension inspection and etc. It has two business divisions: BU Precision and BU Standard. BU Standard mold is specialized in the complex mold covered from medium to big

size, which is served for automotive and smart home products. BU Precision is focused on tight tolerance tooling with multi-cavity, it mainly served for precise electronics, healthcare and packaging. TK Group is mainly covered in European and American area and have a comprehensive team to provide the services to the customers locally. The business is mainly made profits and revenues by providing molding service to Automobiles industry, commercial telecommunications equipment and wearable devices and mobile phones.

TK Group has a stable economic growth through the years, even though under the uncertainties of the international political and economic conditions and the influence of the global trade disputes. But the challenges always come with the success, the company is facing the decreasing of customer's incentive to consume due to their sensitivity to the products' price, the problem of the implement of the advanced plants and machinery and the problem of the global economic downslope. The business is facing these problems with its on-going business. However, in the difficult business environment, TK Group has achieved honours in the industry, such as the "2017-2020 Key Export Enterprise of Mold" by China Mold Industry Association in 2019, "2018 Hong Kong Business Award: Upgrading and Transformation" in 2018, and "Jabra Quality Supplier Award" and etc. Therefore, the business has a stable development and growth through the years (Tkmold.com, 2019).

1.2 Research comparison company information

Table 1: Companies information

Company Name (Stock Number)	TK (2283)	Ka Shui (0822)	CASIL (0031)
Business Nature	Industrials		
Market Value (HKD)	2,299.8 million	286 million	1,264.9 million
PE	6.571	2.518	3.130
Market Area	European, American area	North America, China	America, Canada, Asian countries

Source: From this research. (Appendix 4)

This study is used of two other companies Ka Shui International Holdings Limited (stock code 0822) (Ka Shui) and China Aerospace International Holdings Limited (stock code 0031) (CASIL) for comparison. All those two companies have the similar nature of business with TK group.

2. Financial analysis

Based on its financial reports for the past three years, we are conducting comprehensive quantitative analysis on TK Group through primary accounting and financial ratio analysis. This includes analysing the company's bankruptcy index, profitability, liquidity and efficiency, solvency as well as stock market prospects, whereas this analysis will be used to compare TK Group with two other companies in the industry, which are Ka Shui and CASIL.

2.1 Bankruptcy index Z-Score analysis

The Altman Z-Score formula (Altman, 1968) is mainly used to predict the probability that a firm will become insolvent. If the z-score is lower than 1.8, company going into bankruptcy is likely, whereas company with z-score greater than 3 is not likely heading for bankruptcy. For company with z-score between 1.8 and 3 is considered being in a "grey" zone. Altman Z-score formula:

$$Z = 1.2A + 14.B + 3.3C + 0.6D + 0.999E$$

A = Working capital/ Total Assets; B = Retained Earnings/ Total Assets; C = EBIT/ Total Assets; D = (Stock Value* Total Number of Stocks)/ Total Liabilities; E = Sales/ Total Assets
The following table classifies all relevant financial contents and information required to compute Z-Score for all three companies, including TK Group for the past three years.

Table 2: Relevant financial contents for computing Z-score

Company Name	TK			Ka Shui	CASIL
(HKD in million) (Yr)	2016	2017	2018	2018	
Net Current Assets	348.43	560.25	766.53	283.10	1,551.83
Total Assets	1,402.09	1,638.61	2,163.49	1,719.70	14,319.28
Retained Earnings	370.22	538.43	715.62	940.26	404.12
EBIT	232.25	351.49	410.30	139.07	731.96
Stock Value	2.11	4.88	4.26	0.35	0.49
Number of Stock (million shares)	826.60	833.26	833.26	893.76	3,085.02
Total Liabilities	717.08	727.09	1,088.03	651.29	5,138.91
Sales	1,626.61	1,860.90	2,298.61	1,852.33	3,690.80

Source: From this research

Based on all the number from *Table 2*, we then constructed a table below to compute all the required financial ratios to predict each company's bankruptcy index:

Table 3: Z-Score for the three companies

Company Name		TK			Ka Shui	CASIL
(HKD in million) (Yr)		2016	2017	2018	2018	
A	1.2	0.25	0.34	0.35	0.16	0.11
B	1.4	0.26	0.33	0.33	0.55	0.03
C	3.3	0.17	0.21	0.19	0.08	0.05
D	0.6	2.43	5.59	3.26	0.48	0.29
E	0.999	1.16	1.14	1.06	1.08	0.26
Z Score		3.83	6.07	4.53	2.59	0.77

Source: From this research

According to the bankruptcy index analysis, the Z-Score results show that TK Group was considered being in a safe zone for the past three years, which means it has a sound financial health and is not likely to bankrupt within two years. Meanwhile, TK Group is far more financially sound than the other two companies as they have Z-Score below 3, especially CASIL's Z-Score is below 1.8, which means it's in a distress zone and thus bankruptcy is very likely (Altman, 1968).

2.2 Profitability

In this section, we are assessing TK Group's ability to generate income and comparing it with the other two companies by the means of conducting several key profitability ratios.

Table 4: Profitability ratio for the three companies

Company Name	TK			TK	Ka Shui	CASIL	Industry Avg
Year	2016	2017	2018	3 Year Average			
Gross Profit Margin (%)	28.06	33.69	31.52	31.09	21.49	25.97	26.18
Net Profit Margin (%)	12.65	16.22	15.23	14.70	3.83	16.67	11.73

Source: From this research

From the *Table 4*, it is obvious that TK Group has had a higher 3-year average gross profit margin than the other two companies as well as 3-company average. TK Group's 5% gross profit margin increase in 2017 was mostly attributable to increase plastic component sales to China. Although experienced approximately 20% growth in total revenue in 2018, Trade War between China and US has been putting upward pressure on manufacturing cost, lowering its gross profit margin.

Net profit margin results show that TK Group has an average 14.70%, which is slightly lower (less than 2%) than CASIL but far higher than that of Ka Shui (more than 10% discrepancy). This is because Ka Shui experienced lower net profit in 2016 and 2017 due to low revenue and high cost of sales, causing its average to decline.

Table 5: Asset ratios for the three companies

Company Name	TK			TK	Ka Shui	CASIL	Industry Avg
(HKD in million) (Year)	2016	2017	2018	3 Year Average			
Total Asset Turnover (%)	116.01	113.57	106.25	111.94	181.78	133.02	142.25
Return on Assets (%)	14.67	18.42	16.19	16.43	7.13	22.18	15.25
Equity Multiplier	2.05	1.80	2.01	1.95	1.16	0.38	1.17
Return on Equity (After Tax, %)	30.03	33.11	32.56	31.90	7.94	8.47	16.10

Source: From this research

The Table 5 is constructed based on DuPont Formula. As shown in the table, TK Group has an average return on asset of 16.43%, which is higher than the industry average of 15.25% (mostly due to Ka Shui's low return on asset), whereas lower than CASIL. Equity multiplier (financial leverage ratio) results show that TK Group has a much-balanced use of debt and equity in financing its capital, with an average of 1.95. This is higher than the other two companies as well as the industry average. Moreover, from the Table 5, we can find that TK Group's after-tax return on equity has been consistent for the past three years, staying well above 30%, which is much stronger than that of Ka Shui and CASIL ranging from around 8-8.5%. Such great discrepancy is mostly due to TK Group's strong return on assets and better financial leverage. Overall, this analysis indicates that TK Group's ability to generate profit is fairly superior on industry basis.

2.3 Liquidity

Table 6: Liquidity ratios of the three companies

Company Name	TK			TK	Ka Shui	CASIL	Industry Avg
(HKD in million) (Year)	2016	2017	2018	3 Year Average			
Current Ratio	152%	187%	195%	178%	124%	162%	155%
Quick Ratio	113%	140%	152%	135%	94%	142%	124%
Stock Credit Index	-0.32	-0.83	-1.23	-0.80	0.25	-1.73	-0.76
Cash Ratio	57%	84%	93%	78%	33%	65%	59%

Source: From this research

Current Ratio (Myaccountingcourse.com, 2019) is a liquidity and efficiency ratio that measures a firm's ability to pay off its short-term liabilities with its current assets. A higher current ratio is always preferred as it means the company can be more easily to bear the current liabilities and repay the debts. From 2016 to 2018, among these three years, the current ratio of the company is increasing from 1.52 to 1.95, captured an increase for 28%, which means the ability of TK Groups to repay the current liabilities increase. Compare with CAI and KS, TK Groups is having a stable performance within these three years, its average performance is higher than the others two companies and the industry average.

Quick Ratio (Myaccountingcourse.com, 2019) is a liquidity ratio that measures the ability of a company to pay its current liabilities when they come due with only quick assets; Quick assets are the current assets that could be changed to cash within 90 days or in short-term. The higher quick ratios are better for companies since it shows the company could settle its current liabilities without selling any long-term assets. From 2016 to 2018, the quick ratio of TK Groups increases from 1.13 to 1.52, which means the company has the ability to settle its current liabilities and still has some quick assets left over. Compared with CAI and KS; TK Groups is having a stable performance within these three years.

Cash Ratio - TK Group's cash ratio has been rising from 57% in 2016 to 93% in 2018, scoring an average of 78%, which is far better than industry average of 59%. This is because TK's has secured above 40% yearly growth in cash for past three years, with merely 30% increase in current liabilities in 2018 (negative growth in 2017).

Overall, TK's short-term liquidity performance has been relatively positive as compared to its industrial counterparts, given its rising and stabilizing cash flow.

2.4 Efficiency

Table 7: Efficiency ratios of the industry average

Ratios	Industry Average
Inventory Turnover	6.42
Day's Sales in Inventory	63.44
Receivables Turnover	4.59

Source: From this research

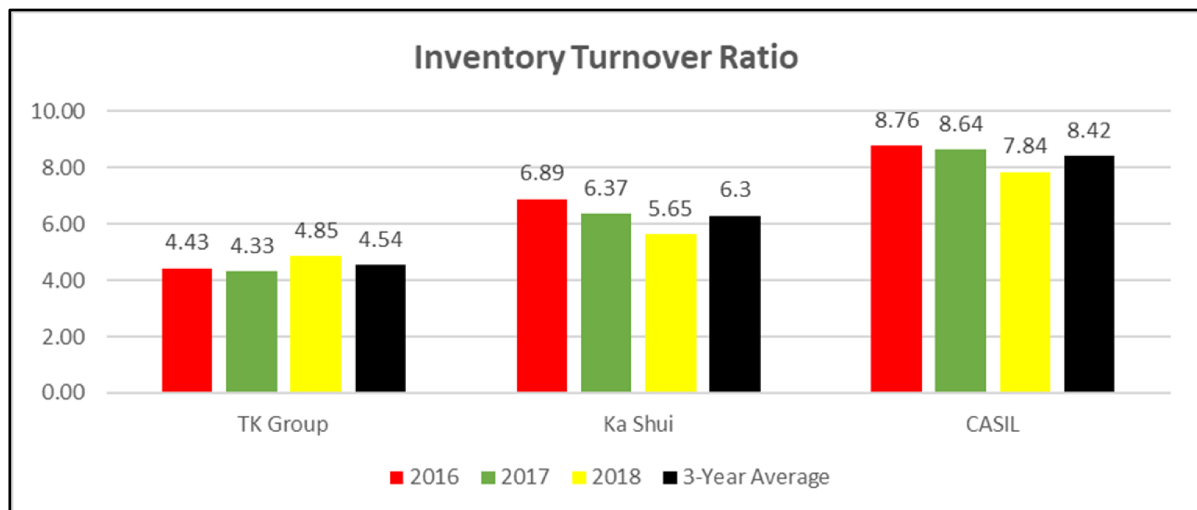


Figure 1: Inventory turnover ratio of the three companies

Source: From this research

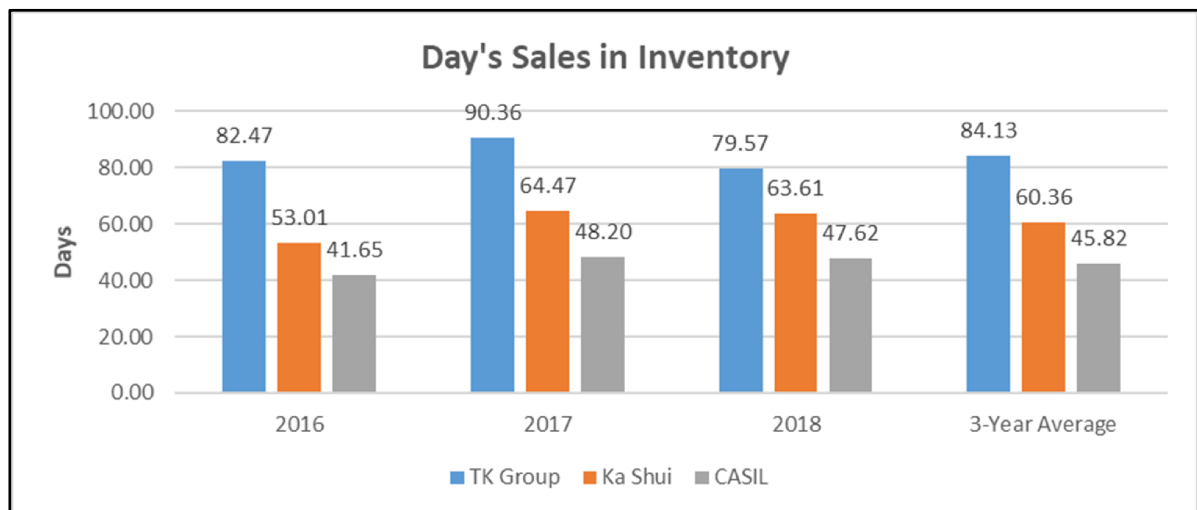


Figure 2: Day's Sales in inventory of the three companies

Source: From this research

From above *Table 7*, *Figure 1* and *Figure 2*, we found that TK sold and replaced its inventory 4.54 times on average (lower than industry of 6.42 times) while it's able to sell its entire stock of goods within around 84 days (longer than industry of 63 days). With its level of sales, TK's might have overestimated demand for its products and kept too many stocks which can be costly. Given its sales demand, holding on excess stock of goods has caused TK to take longer time than its industrial counterparts to turn them into cash. Thus, TK needs to improve its management in sales effectiveness and stock controlling.

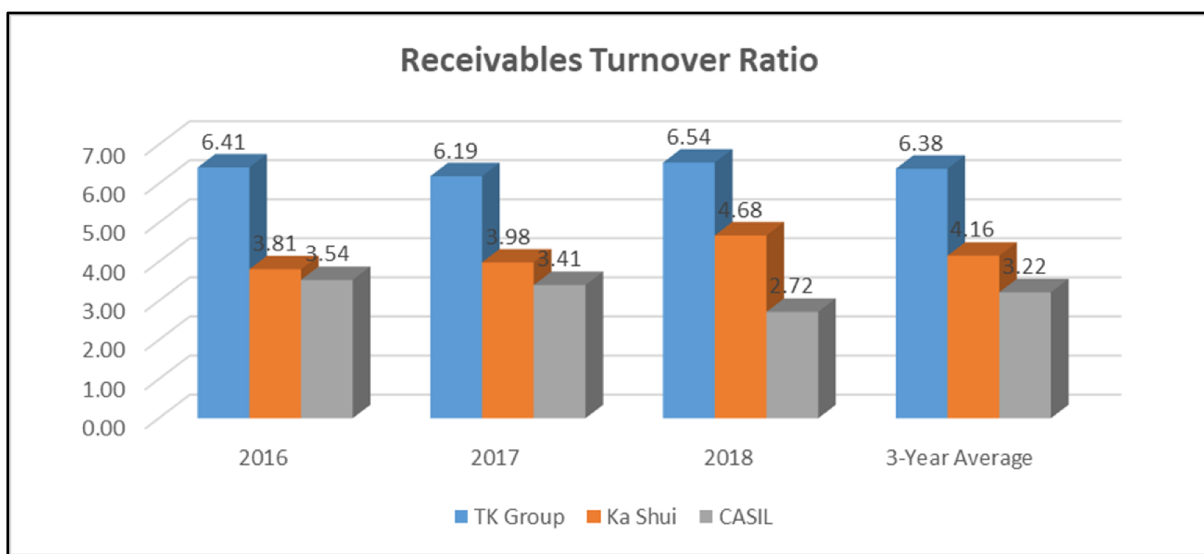


Figure 3: Receivables Turnover ratio of the three companies

Source: From this research

From the *Figure 3*, as compared to its counterparts, TK scored a receivables turnover of 6.38 times (higher than industry average of 4.59 times, Ka Shui and CASIL of 4.16 and 3.22 times). This could be the result of TK's efficiency-centred credit policy where clients pay debt on time or before dateline and TK analysed clients' creditworthiness before approving credit sales. Overall, TK might need to improve efficiency in stock management and its sales if it were to reduce excess inventory-related cost, whereas TK's collection and credit policies were, on industry base, more than efficient.

2.5 Solvency

Compared to liquidity ratios which measure company's ability to meet short-term obligation, we are analysing TK Group's financial position from a long-term perspective using solvency ratios.

Table 8: Solvency ratios of the three companies

Company Name	TK			TK	Ka Shui	CASIL	Industry Avg
(HKD in million) (Year)	2016	2017	2018	3 Year Average			
Total Debt Ratio	51%	44%	50%	49%	93%	196%	113%
Long-term Debt/Equity Ratio	5%	7%	22%	11%	5%	4%	7%
Long-term Debt Ratio	5%	7%	18%	10%	4%	4%	6%
Total Debt/Fixed Asset Ratio	198%	175%	211%	195%	116%	481%	264%
Time Interest Cover Ratio	71.90	177.43	129.60	126.31	7.91	20.50	51.57

Source: From this research

Based on the *Table 8*, we could find that TK's debt ratio has been consistent throughout the years, at around 50% (better than industry average of 113%) whereas its long-term debt and debt/equity ratios are average 10% and 11% respectively (higher than industry average of 6% and 7%). Both of these long-term ratios were very similar except there's a 4% difference in 2018, and this is attributable to TK's newly secured multi-million worth of bank borrowings to finance its business expansion. However, these ratios also indicate that TK utilised debt moderately to finance its assets while proportion of long-term debt in total liabilities is insignificant, thus facing low financial risk in the long-run.

TK's debt/fixed asset ratio (Myaccountingcourse.com, 2019) can be explained by TK's financial policy which focuses on high level liquidity through keeping its fixed assets low. Its ratio is higher than Ka Shui but lower than CASIL by more than twice. Despite CASIL has

fixed assets two times higher than TK, CASIL's total liabilities are three times the size of TK's. Therefore, TK's debt/fixed asset ratio is much lower than that of CASIL and industry average.

TK's average time interest coverage ratio of 126.31 times is far greater than the industry average (51.57 times) as both Ka Shui (7.91 times) and CASIL (20.50 times) have poor ability to service their debt obligation due to high liabilities. TK's excellent debt servicing ability is mostly due to its steady-rising earnings and low cost of debt financing.

Overall, based on all the computation, TK's financial condition in the long run is relatively healthy, thanks to the company's financial policy which focuses on balanced capital structure and low level of fixed assets.

2.6 Stock market prospects

Table 9: Growth capacity ratios of the three companies

Company Name	TK			TK	Ka Shui	CASIL	Industry Avg
(HKD in million) (Year)	2016	2017	2018	3 Year Average			
Retained Yield	1.80	1.78	2.04	1.87	13.28	8.16	7.77
Self-sustainable Growth (%)	54	59	67	60	88	64	71
Earnings per Share (HKD)	0.25	0.36	0.42	0.34	0.08	0.18	0.20
Price-Earnings Ratio	8.44	13.55	10.14	10.71	9.04	4.44	8.06

Source: From this research

From *Table 9*, although much lower than the industry average of 7.77 times, TK's 3-year average retained yield of 1.87 times is still considered reasonable, given TK's retained earnings and after-tax earnings have grown nearly 90% and 70% respectively over the past three years. Along with paying dividends, as a technology-based manufacturing company, it is reasonable that TK abided to retaining large proportion of its earnings to reinvest in the business for future

growth. Its two industry counterparts have higher retained yield as they paid relatively low dividends to their shareholder but emphasising on reinvestment.

On average, TK is able to sustain a maximum of 60% growth rate without increasing its financial leverage (financing with debt or equity). Although it's lower than the industry average of 71%, it is still safe for TK to balance its use of funding by investing moderately in the business growth while keeping its reserve flexible (enough cash flow for repayment). Thus, TK is considered more self-sustainable relative to its counterparts, who have high growth rate by investing heavily on R&D.

TK's earnings per share of average HK\$0.34 has been well above the industry average of HK\$0.20. Consistent growth to its earnings per share was attributable to TK's drastic earnings growth over the years (more than 70% since 2016). Moreover, TK's price-earnings ratio of 10.71 times is above the industry of 8.06 times. Given TK's consistent earnings growth over the years, it is fair to say TK's future growth prospect is well ahead its industry counterparts, and thus its share price reasonably reflects its company value.

3. Corporate governance assessment

The corporate governance (Humera, 2011) is the broad term describes the processes, customs, policies, laws and institutions that directs the organizations and corporations in the way they act, administer and control their operations. It works to achieve the goal of the organization and manages the relationship among the stakeholders including the board of directors and the shareholders. It also deals with the accountability of the individuals through a mechanism which reduces the principal-agent problem in the organization. Fine corporate governance is an

essential standard for establishing the striking investment environment which is needed by competitive companies to gain strong position in efficient financial markets.

TK Group believes good corporate governance practices are important for maintaining and promoting investors' confidence and for the sustainable growth of the group. The company has set a comprehensive rules and regulations to manage the internal management of working environment. For the employees, the company has established a written guideline for its employees, governing securities transactions that processing inside information of the company by employees who including the directors and employees of a subsidiary or holding company of the company. If the company has any update or notice about the restriction for dealings in the company's securities, the company will notify its directors and relevant employees in advance.

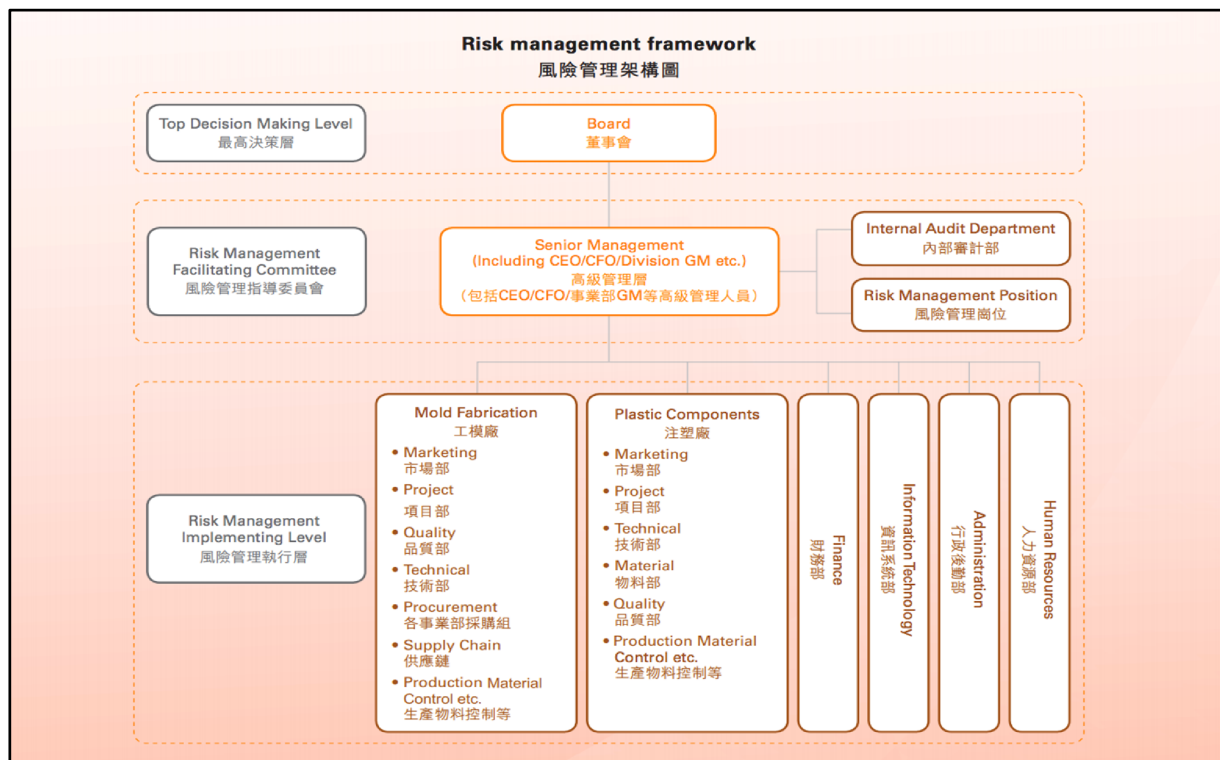


Figure 4 The risk management framework of TK Group

Source: TK Group (Holdings) Limited (2018) Annual Report.

<http://www.tkmold.com/uploadfiles/2019/04/201904081717491749.pdf>

For risk management and internal controls, the company believes that these two aspects are essential to the achievement of the strategic goals of the group. The Board is responsible for the setup, monitor, maintain and review the effectiveness of the monitoring systems to the company. The risk management framework (*See Figure 4*) is set up by the company in 2016 in order to improve the risk management and internal control system and risk prevention capabilities, the framework is included the Board and its Audit committee, senior management and subsidiary management in three level.

Rather than the framework, TK Groups has hired the professional risk advisory to design and build up the risk management framework, and develop the “Risk Assessment Manual”, to ensure it could be functioned and the risks that it needs to be addressed. During the evaluation process, the committees have analysed the foreseeable risks and based on these risks, sorted up according to its level of seriousness, and designed different plans in order to confront the risks and keep the risks within the acceptable level.

TK Groups reviews the risk management and internal control system every year, to determine whether the effectiveness of the system is enough for the company’s recent situation, also the level and back up for human resources, employees’ experiences and trainings, is that enough to encounter the risks and problems might exist.

Compare with the Hong Kong Stock Exchange, TK groups has the boards with its risk management framework, which is same as the structure of HKEX, also both of them are having “Three Lines of Defence”, the senior management level staff members are mainly focusing on monitor the risk and acting the instructive character, the junior staff members are responsible

for the actions and follow-up of the projects carried. Therefore, TK Groups has a comprehensive risk management and corporate governance.

4.. Investment project appraisal

TK Group has an investment project to build a new injection moulding plant in Vietnam (Haiphong City), the ultimate goal is expanding company's share in international market as well as its sales network. TK Group performs investment appraisal (Tutor2u.net, 2018).

Table 10: Project items basic information

Project Cost	Million HKD	Remarks
Building Cost	25	Purchase Land with Pre-build basic Building @ 8,000 Square meters
Decoration	8	Estimation
Plant machinery Cost	25	Estimation: Includes 50 sets injection molding machines with Robot, and supporting equipments
Total Cost	<u>58</u>	
Remaining basic information		Remarks
Building depreciation years	20	Per TK Group depreciation definition
Decoratin period (Years)	5	TK Group 2018
Sales growth rate	13.07%	TK Group (2016-2018 average)
Ultimate growth rate	3.50%	Assume long-term investment growth
EBIDAT (%)	17.85%	TK Group 2018
Operationg period (Days)	32.62	TK Group 2018
Project items	Million HKD	Remarks
Sales	150	Estimated Sales 150MHKD for first year

Source: From this research

Table 11: Tax cost

Items (HKD in million)	1Yr	2Yr	3Yr	4Yr	5Yr
Sales = Last Years Sales x (1+50% Growth rate)	150.00	169.61	191.77	216.84	245.18
EBIDA	26.775	30.27	34.23	38.71	43.76
Depreciation = -(building cost/20 + Decoration/5 + machinery/10)	-5.35	-5.35	-5.35	-5.35	-5.35
EBIT:	21.43	24.92	28.88	33.36	38.41
Tax cost (Std tax rate: 20%) Note:1	0	0	-2.89	-3.34	-3.84
Profit:	21.43	24.92	25.99	30.02	34.57

Note 1: For new investor, Vietnam government gaives tax benefit for 5years, first 2 years tax free and next 3 years in half tax.

Source: From this research

Table 12: Cashflow calculation

Items (HKD in million)		Yr1	Yr2	Yr3	Yr4	Yr5
EBITDA		26.78	30.27	34.23	38.71	43.76
Expenditure (Note1)		-13.41	-15.16	-17.14	-19.38	-21.91
Expenditure (Note2)		-1.6	-1.6	-1.6	-1.6	-1.6
Tax expense		0	0	-2.89	-3.34	-3.84
Cashflow	-58	11.77	13.52	12.60	14.39	16.41

Note1: Working capatal for 1st year calculation=Annual sales x Operation cashflow periord /365=150Mx(32.62/365)=13.41M

Working capatal for the rest calculation= the previous year working capital x (1+ Sales growth rate)

Note2: Assumption for expenditure to pay for the annual decoration cost, about 8 Million/5 year= 1.6M per year.

Note3: Cashflow after 5 years, using the assumption the ultimate growth @3.5%.

Source: From this research

Table 13: ARR calculation

Items - ARR	Million
Total Income for 20 Years	811.15
Average ARR (A)	40.56
Initial Cost (A/B)	58
ARR (A/B):	69.93%

Source: From this research

Table 14: NPV calculation

Year	Cashflow	Present value	Year	Cashflow	Present value
Initial cost	-58				
1st	11.77	10.11	yr 6-10	76.46	22.94
2nd	13.52	9.97	yr 11-15	87.60	12.28
3rd	12.60	7.99	yr 16-20	103.81	6.80
4th	14.39	7.83	Total PV		85.59
5th	16.41	7.67	NPV		27.59

Source: From this research

Table 15: Payback period and IRR

Years	Million HKD
0	-58.00
1	-47.89
2	-37.92
3	-29.93
4	-22.10
5	-14.43
6	-8.69
7	-3.59
8	0.93
Payback periods (Yr) =	7.79
	= 7 years 10 months

IRR= 24%

Source: From this research

The project has a duration for 20 years, at the beginning \$58 millions would be invested for land, decoration and machineries purchasing. For the first year we expect there would be \$150 millions sales, which is directly generate by the company itself without any agent and proxy. Based on the statistic we obtained from the company's annual reports, the project would analyse to have a sales growth rate of 13% and 3.5% for the long-term investment. There are some elements to consider whether the project is worth or not to invest:

- i. Investment Payback period - The payback period for this investment project is 7 years 8 months, which is quiet normal for the business, since it is a manufacturing business and the company needs time to develop the business partners and networking in the new

business environment, it takes time to develop a mature operation and business environment.

- ii. Average Rate of Return – The ARR of the project is 69.93% after the calculation, we could determine that the project has a good rate of return to the company, the investment could generate a high return to the business.
- iii. Net Present Value – The net present value of the business is around 47.5% of the initial investment amount of the investment project, which means the project could be generate profits for the company.
- iv. Internal Rate of Return – IRR is the ratio that determine whether the investment is worth to invest when it is evaluate when the net present value of the investment is equal to zero. The IRR of this investment project is 24%, which is an appropriate number of the new investment in the new business environment.

From the results of all relevant computation above, the building of new injection moulding plant in Vietnam (Haiphong City) has an estimated payback period of “7 years 8 months” and its net present value is positive. As such, providing positive return has made this project investment financially profitable, the investment project in Vietnam is worth to invest after the evaluation for the ARR, IRR, NPV and the payback period, TK should undertake the proposed project. The investment project could help increase the profits and it could be expanded its business scale and develop a bigger networking.

5. Financing and Capital management

Table 16: Relevant financial content for capital review

Company Name	TK			Ka Shui	CASIL
(HKD in million) (Year)	2016	2017	2018	2018	
Cash and Equivalents	381.310	540.815	753.811	250.606	958.628
Bank Borrowings	34.310	65.210	235.014	324.702	0.000
Cash Ratio	57%	84%	93%	38%	77%
Retained Yield	1.80	1.78	2.04	4.86	14.69
Net Debt Ratio	-50.66%	-52.18%	-48.24%	7.74%	-10.44%
Net Interest Expense	-2.303	-4.634	-6.799	10.167	56.438

Source: From this research

Cash – capital raising using company’s retained earnings/cash available. TK Group’s financial position and cash flow has been improving drastically over the past three years, with net cash of more than 30% of total sales and negative 50% net debt ratio. Its high cash ratio of 93% is much higher than the average industry, so even HK\$65million to be raised from company’s available cash, TK’s cash ratio will drop by merely 8%, to 85% (still favourable). It is reasonable to believe that a 0.2 drop to retained yield would hardly have any devastating impact on TK’s liquidity and long-term financial viability.

Bank Borrowings – The main benefit of this option is that TK Group wouldn’t need to draw on its cash reserve and thus it’s safe during time of emergency. TK’s effective weighted average interest rates (denominated in HK\$) in 2018 was 2.45% whereas around 70% of its bank borrowings are repayable between 2 to 5 years. Given that TK’s long-time partner bank is unclear, we assume it would be reasonable to factor in current Hong Kong’s prime lending rate, if TK were to adopt the lending option. As at July 2019, the rate was reported at 5.125% per annum, which is approximately HK\$ 3.33 million annual increase to TK’s interest expenditure. As TK’s interest income exceeds its interest expense by nearly HK\$ 7 million in 2018,

undertaking this loan would only reduce this figure to HK\$ 3.5 million (far better than its peer companies). Thus, extra interest expense arises from borrowing considered insignificant on TK's already healthy financial condition.

Share Issuing – Capital fund-raising through issuing ordinary shares is one of the most common equity options. Although share issuing provides proceeds to company without using its own fund, this might dilute ownership of existing shareholders (reducing company's equity ratio) as well as potentially impact company's management control. Another main drawback of equity capital is the related underwriting and distribution cost.

Sales of Assets – Selling assets could cash out for cash and use it as a capital, this method is not recommending for the company to use since when it comes to selling the assets although this is the fastest way to get capital and operational liquidity, the reputation of the company would be damaged. The public might think there might be something happen to the company, the confidence to the company would decrease. The sales and revenues might be affected since the clients lost trust with the company; Also, the stock price would be affected since the negative impact from selling the asset.

In conclusion, based on our analysis, TK Group should opt for bank loan to raise HK\$ 65 million cash needed for its investment project. Based on the latest rate, TK's loan is of 5-year term and annual interest rate of 5.125% (which is around HK\$ 3.33 million per annum). After undertaking this financing option, TK Group's debt-to-equity ratio is projected to increase from 22% in 2018 to 26% in 2019 whereas its total debt ratio is estimated to rise from 50% in 2018 to 53% in 2019. Its net interest expense is also expected, still, to be negative (which is HK\$ 3.5

million more interest income than interest expense). Overall, these changes are predicted to be of no significant impact on TK Group's debt servicing ability and long-term liquidity. Without diluting shareholders' ownership, TK Group's raised capital is expected to generate the company more sales through expanding its international market and networking, whereby TK Group's operating capacity could be strengthening in the long-run.

6. Recommendation and audit plan

An Audit plan (Surbhi, 2017) is the designed guideline to be followed when conducting an audit. it helps the auditor obtain enough and appropriate evidence for the circumstances, helps keep audit costs at a reasonable level, and helps avoid misunderstandings. From the annual report, we have obtained the followings foreseeable risks:

I) Trade War between China and USA

In the early 2019, USA announced the tariff for China's goods might increase 25% when China exports goods to USA. The new policy might increase the cost when TK Groups export its products to its clients or when it exports the goods to USA. TK Groups' factories are mainly located in China, to deal with the instability for the global business environment, TK Groups should consider having different manufactory factories in the others low-cost production countries, such as Vietnam, Malaysia and etc. The investment project in section 4 should be implied and carry out by selected auditor.

II) Labour Cost

TK Groups has implemented the AI and robot technology into its productions line, from its annual report, we could see that the labour costs are increasing every year due to the

inflation rate and the increasing educated workers. Audit should be carried out to determine whether the AI and Robot technology should be used more widely in the factory to lower the labour costs.

III) Sales effectiveness and stock controlling

For the inventory turnover rate, TK Groups' ability to sell its products too slow and is below the industry average; Also, the days that it needs to turn the inventories into cash is too long when it compares to industry average. These problems might lead to the decrease cash ratio and its performance in the manufacturing industry. Audit should be carried out to indicate the possible problems and enhance the performance of the company.

In order to solve the above foreseeable risks and problem, an audit plan (Hkexgroup.com, 2019) need to be designed for the auditor to follow to avoid misunderstanding and misconduct actions:

Audit plan

Audit Scope	Auditor		Year			
			July-Sep	Oct-Dec	Jan-March	Apr-Jun
New investment project in other countries	<u>Lead Auditor:</u> - Research and Develop Manager - Financial Manger <u>Auditor:</u> - Research and Develop Staff - Financial department staff		- Research for the business environment of the selected countries, and understand the related policy and demographic factors (Auditor)	- Draft of the related proposal and financial reports (Auditors) - Review and analysis on the draft reports (Lead Auditor)	- Report to the Boards and discuss the feasibility of the projects (Auditors)	- Decision-making for the implementation of the projects (Lead Auditors)
Labour Cost	<u>Lead Auditor:</u> - Human Resources Manager - Accounting Manager <u>Auditor:</u> - Human Resource Staff - Accounting staff			- Reviewing the labour costs and the consistency of the AI and Robot's job performance - Conduct the review report (Auditors)	- Evaluate the costs and the situation - Discussion on the costs evaluation and determine the probability to increase the AI and Robot (Lead Auditors)	- Decision-making for the implementation of the new AI and Robot or keep the labour force (Lead Auditors)

Sales Effectiveness and Stock Controlling	<u>Lead Auditor:</u> - Marketing Manager - Inventory Manger <u>Auditor:</u> - Marketing Staff - Inventory staff		- Review the marketing strategies and promotion methods (Auditor) - Review the recent stock control system and the stock level (Auditors)	-Develop networking with the potential clients, in order to expand the target market area/ regions (Auditor) - Design new marketing strategies and promotion methods (Auditors) - To make improvement plans of the current policy or regulation (Auditors)	- Review the new proposal and new ideas from the auditors and determine whether the feasibility for the new plans (Lead Auditors) - Review the improvement plans and discuss the feasibility (Lead Auditors)	- Decision-making on the new plans for the marketing and sales (Lead Auditors) - Implement of the new plan and policy after the lead auditors' discussions (Lead auditors and Auditors)
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7. Conclusion and recommendation

TK Group has a stable and consistence performance with its financial status, which has provided itself a strong base to expand the company or have new investment in order to increase its market share in its industry. However, improvements need to be done in order to achieve a better development of the company, the audit plan above could help the company to foresee the risks that it might need to overcome and state out a clear guideline for the company to follow, which could avoid the misunderstanding or misperception when the challenges existed.

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Appendixes

Appendix 1: TK Group 2016-2018 yearend stock price

→ ↺ 🏠 <https://hk.finance.yahoo.com/quote/2283.HK/history?period1=1534521600&period2=1546185600&interval=1d&filter=his>

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東江集團控股 (2283.HK) ☆ 加入追蹤清單
HKSE - HKSE 即時價格 · 貨幣為 HKD ·

2.760 0.000 (0.00%)
收市價：16/8月 3:59PM HKT

內容摘要 圖表 對話 統計資料 **歷史數據** 基本資料 金融 分析 期權 持股人 可持續性

時段: 2018年8月18日 - 2018年12月31日 顯示: 過往股價 頻率: 每天 套用

貨幣為 HKD 下載數據

日期	開市	最高	最低	收市*	經調整收市價**	成交量
2018年12月31日	4.260	4.260	4.260	4.260	4.125	-

→ ↺ 🏠 <https://hk.finance.yahoo.com/quote/2283.HK/history?period1=1502985600&period2=1514649600&interval=1d&filter=his>

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+238.76 (+0.94%) ✓ +60.89 (+0.61%) ✓ +8.03 (+0.29%) ✓ +16.54 (+0.45%) ✓ 0.0000 (0.0000%)

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HKSE - HKSE 即時價格 · 貨幣為 HKD ·

2.760 0.000 (0.00%)
收市價：16/8月 3:59PM HKT

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時段: 2017年8月18日 - 2017年12月31日 顯示: 過往股價 頻率: 每天 套用

貨幣為 HKD 下載數據

日期	開市	最高	最低	收市*	經調整收市價**	成交量
2017年12月29日	4.710	4.920	4.700	4.880	4.589	254,000

→ ↺ 🏠 <https://hk.finance.yahoo.com/quote/2283.HK/history?period1=1471449600&period2=1483113600&interval=1d&filter=his>

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HKSE - HKSE 即時價格 · 貨幣為 HKD ·

2.760 0.000 (0.00%)
收市價：16/8月 3:59PM HKT

內容摘要 圖表 對話 統計資料 **歷史數據** 基本資料 金融 分析 期權 持股人 可持續性

時段: 2016年8月18日 - 2016年12月31日 顯示: 過往股價 頻率: 每天 套用

貨幣為 HKD 下載數據

日期	開市	最高	最低	收市*	經調整收市價**	成交量
2016年12月30日	2.150	2.150	2.110	2.110	1.890	60,000

Source: <https://hk.finance.yahoo.com/quote/2283.HK?p=2283.HK>

Appendix 2:

→ ↺ 🏠 <https://hk.finance.yahoo.com/quote/0031.HK/history?period1=1471449600&period2=1546185600&interval=1d&filter=hi>

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航天控股 (0031.HK)
HKSE - HKSE 即時價格，貨幣為 HKD - ☆ 加入追蹤清單

0.415 +0.005 (+1.22%)
收市價：16/8月 3:59PM HKT

內容摘要 圖表 對話 統計資料 **歷史數據** 基本資料 金融 分析 期權 持股人 可持續性

時段: 2016年8月18日 - 2018年12月31日 顯示: 過往股價 頻率: 每天 套用

貨幣為 HKD 下載數據

日期	開市	最高	最低	收市*	經調整收市價**	成交量
2018年12月31日	0.485	0.490	0.480	0.490	0.480	3,100,000

→ ↺ 🏠 <https://hk.finance.yahoo.com/quote/0031.HK/history?period1=1471449600&period2=1514649600&interval=1d&filter=hi>

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0.415 +0.005 (+1.22%)
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時段: 2016年8月18日 - 2017年12月29日 顯示: 過往股價 頻率: 每天 套用

貨幣為 HKD 下載數據

日期	開市	最高	最低	收市*	經調整收市價**	成交量
2017年12月29日	0.940	0.950	0.930	0.940	0.888	2,000,840

→ ↺ 🏠 <https://hk.finance.yahoo.com/quote/0031.HK/history?period1=1471449600&period2=1483113600&interval=1d&filter=hi>

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航天控股 (0031.HK)
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0.415 +0.005 (+1.22%)
收市價：16/8月 3:59PM HKT

內容摘要 圖表 對話 統計資料 **歷史數據** 基本資料 金融 分析 期權 持股人 可持續性

時段: 2016年8月18日 - 2016年12月30日 顯示: 過往股價 頻率: 每天 套用

貨幣為 HKD 下載數據

日期	開市	最高	最低	收市*	經調整收市價**	成交量
2016年12月30日	0.950	0.980	0.950	0.980	0.908	5,673,600

Source: <https://hk.finance.yahoo.com/quote/0031.HK?p=0031.HK>

Appendix 3:

→ ↺ 🏠 <https://hk.finance.yahoo.com/quote/0822.HK/history?period1=1471449600&period2=1546185600&interval=1d&filter=hi>

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HKSE - HKSE 即時價格，貨幣為 HKD

0.330 +0.010 (+3.13%)
收市價：16/8月 3:58PM HKT

內容摘要 圖表 對話 統計資料 **歷史數據** 基本資料 金融 分析 期權 持股人 可持續性

時段: 2016年8月18日 - 2018年12月< 顯示: 過往股價 頻率: 每天 套用

貨幣為 HKD [下載數據](#)

日期	開市	最高	最低	收市*	經調整收市價**	成交量
2018年12月31日	0.350	0.350	0.350	0.350	0.329	70,000

→ ↺ 🏠 <https://hk.finance.yahoo.com/quote/0822.HK/history?period1=1471449600&period2=1514649600&interval=1d&filter=hi>

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0.330 +0.010 (+3.13%)
收市價：16/8月 3:58PM HKT

內容摘要 圖表 對話 統計資料 **歷史數據** 基本資料 金融 分析 期權 持股人 可持續性

中 🌐

時段: 2016年8月18日 - 2017年12月< 顯示: 過往股價 頻率: 每天 套用

貨幣為 HKD [下載數據](#)

日期	開市	最高	最低	收市*	經調整收市價**	成交量
2017年12月29日	0.580	0.590	0.560	0.590	0.541	504,000

→ ↺ 🏠 <https://hk.finance.yahoo.com/quote/0822.HK/history?period1=1471449600&period2=1483113600&interval=1d&filter=hi>

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HKSE - HKSE 即時價格，貨幣為 HKD

0.330 +0.010 (+3.13%)
收市價：16/8月 3:58PM HKT

內容摘要 圖表 對話 統計資料 **歷史數據** 基本資料 金融 分析 期權 持股人 可持續性

中 🌐

時段: 2016年8月18日 - 2016年12月< 顯示: 過往股價 頻率: 每天 套用

貨幣為 HKD [下載數據](#)

日期	開市	最高	最低	收市*	經調整收市價**	成交量
2016年12月30日	0.540	0.560	0.540	0.560	0.505	1,262,000

Source: <https://hk.finance.yahoo.com/quote/0822.HK?p=0822.HK>

Appendix 4:

02283 東江集團控股 TK	
www.etnet.com.hk/mobile/tc/stocks/quote_ci_brief.php?code=2283	
經濟通 etnet 股票	
股本	只提供桌面版
上市日期	20/12/2013
上市價 (港元)	1.250 元
每股盈利 (港元)	42.000 仙
每股派息 (港元)	20.000 仙
每股淨資產值 (港元)	1.291 元
市盈率(倍)	6.571
周息率(%)	7.246
股價/每股淨資產值(倍)	2.13787761
市值 (港元)	22.998 億
備註： 即時報價更新時間為 16/08/2019 18:00 港股即時基本市場行情由香港交易所提供; 香港交易所指定免費發放即時基本市場行情的網站	

00822 嘉瑞國際 KA SHL	
www.etnet.com.hk/mobile/tc/stocks/quote_ci_brief.php?code=0822	
經濟通 etnet 股票	
股本	只提供桌面版
上市日期	27/06/2007
上市價 (港元)	1.350 元
每股盈利 (港元)	12.710 仙
每股派息 (港元)	3.500 仙
每股淨資產值 (港元)	1.052 元
市盈率(倍)	2.518
周息率(%)	10.938
股價/每股淨資產值(倍)	0.30418251
市值 (港元)	2.860 億
備註： 即時報價更新時間為 16/08/2019 18:00 港股即時基本市場行情由香港交易所提供; 香港交易所指定免費發放即時基本市場行情的網站	

00031 航天控股 CHINA	
www.etnet.com.hk/mobile/tc/stocks/quote_ci_brief.php?code=0031	
經濟通 etnet 股票	
股本	只提供桌面版
上市日期	25/08/1981
上市價 (港元)	--
每股盈利 (港元)	13.100 仙
每股派息 (港元)	1.000 仙
每股淨資產值 (港元)	2.296 元
市盈率(倍)	3.130
周息率(%)	2.439
股價/每股淨資產值(倍)	0.17857143
市值 (港元)	12.649 億
備註： 即時報價更新時間為 16/08/2019 18:00 港股即時基本市場行情由香港交易所提供; 香港交易所指定免費發放即時基本市場行情的網站	

Source: http://www.etnet.com.hk/mobile/tc/stocks/quote_form.php?

Student Self Evaluation Form

Student name:	Kwok Man Kam, Ken	Student number:	1812206
Programme:	MBA	Year of programme	2018
Assignment Title:	A study report for TK Group (Holdings) Limited financial resources management		

This section repeats in brief the common assessment criteria detailed on previous pages. The *extent* to which these are demonstrated by you determines your mark. Using these criteria, tick the box that best indicates the level of achievement you feel you have achieved with regard to each of them.

Common Assessment Criteria Applied	Level of Achievement						
	REFER			PASS		DISTINCTION	
	FAIL	FAIL	MARGINAL FAIL	SATISFACTORY	GOOD to VERY GOOD	EXCELLENT	EXCEPTIONAL
1. Engagement with literature	0-29%	30-39%	40-49%	50-59%	60-69%	70-84%	85-100%
	☐	☐	☐	☐	☒	☐	☐
2. Knowledge and Understanding	0-29%	30-39%	40-49%	50-59%	60-69%	70-84%	85-100%
	☐	☐	☐	☐	☒	☐	☐
3. Cognitive and intellectual skills	0-29%	30-39%	40-49%	50-59%	60-69%	70-84%	85-100%
	☐	☐	☐	☐	☒	☐	☐
4. Practical Skills	0-29%	30-39%	40-49%	50-59%	60-69%	70-84%	85-100%
	☐	☐	☐	☐	☒	☐	☐
5. Transferable Skills for Life and Professional Practice	0-29%	30-39%	40-49%	50-59%	60-69%	70-84%	85-100%
	☐	☐	☐	☐	☐	☒	☐

PLEASE COMMENT ON AREAS IN WHICH YOU FEEL THAT YOU HAVE PERFORMED WELL	PLEASE COMMENT ON AREAS YOU FEEL THAT YOU NEED TO DEVELOP		
N/A	Practical skills		
Student's Name	Kwok Man Kam, Ken	Date	18th August 2019
Student's Signature			