**126COM Business Decision Making**

**Final Assignment**

**Project Company Name: Sa Sa Intl**

**Stock Code: 00178**

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Chapter 1

Background of Sa Sa International Holdings Limited

Sa Sa International Holdings Limited (Sa Sa Intl.) was founded by Mr. Kwok Siu Ming in 1978. The company is registered in the Cayman Islands and the chairman now is Mr. Kwok Siu Ming. The headquarters is in Chai Wan, Hong Kong. It was listed on the Hong Kong Stock Exchange in 1997 which the stock number is 178.

First of all, the cosmetics business of Mr. Kwok and his wife Ms. Eleanor Kwok Law Kwai-Chun was started in 1970 on Chung On Street, Tsuen Wan. In 1978, they founded a small Sa Sa cosmetics store in Causeway Bay which cost 20 thousand Hong Kong dollars. They provide customers with discounts to attract customers. Since then, it has continued to expand, they tried to operate in the self-service format like in the supermarkets. After many years of expansion, Sa Sa Intl. has become such a large scale. Finally, it entered overseas in 1997.

Besides, Sa Sa Intl. got total of four major markets in Asia includes Hong Kong, Mainland China, Malaysia, and Macau. They are mainly focusing their business on cosmetics retail, brand management, and operating beauty business. And through its website Sasa.com provide product information and online sales services to customers around the world. The Group has won many awards at home and abroad as their goal is to become the leading cosmetics retail group in Asia.

Moreover, Sa Sa Intl. visioned to continue to establish additional retail stores in the region to develop its core cosmetics retail business. The newly designed store concept and e-commerce will also provide the Group with a brand new sales channel. It is now focused on expanding the market in Mainland China. Sa Sa Intl.as a beauty expert, they will continue to work hard to provide customers with "Quality Products, Best Value, and Professional Service" to cater to the different needs of customers. They missioned not only to create maximum returns for shareholders but also to allow employees to improve themselves and pursue excellence and maintain a strategic partnership with suppliers. They also provide customers with the best quality products and the best shopping experience and keep in touch with the community to understand the needs of different people.

Last but not least, Sa Sa Intl. targeted their customer as women and people who needed and interested in cosmetics and make-up products. They operate stores in the one-stop cosmetic shop which made the customer can find products from the world and better experience. Parallel import, brand agency, exclusive brand complement each other business model makes Sa Sa Intl. the strong brand and the market share are at least more than 3% in the skincare industry so it is believed that it has the largest market share in skincare and make-up in Hong Kong.

In the following, we are going to discuss the business situation and analysis the regression of Sa Sa International Holdings Limited.

Chapter 2

Descriptive Statistics

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Chapter 3

Regression Analysis (Based on the data from B1)

i) Find the relationship between the stock price (y) of the selected company and the Hang Seng Index (x).

(Hint: use Excel functions for Regression)

ii) What will be the expected price of the stock if the Hang Seng Index is reaching 31000 in the near future?

How will you inform your client about your expectation?

(Hint: use Correlation Coefficient, need to give explanation )

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Chapter 4

The C.M.R. (contribution margin ratio) & The break-even Sales Revenue

According to the consolidated income statement for the year ended 31 March 2019 of Sa Sa International Holdings Limited (Sa Sa Intl.), we can saw the profit and loss of the period between 2018 to 2019. Sa Sa Intl. had gained the HK$8,017,613,000 in turnovers in 2018 and HK$8,375,900,000 in 2019. There were HK$4,643,747,000 used in the cost of sales in 2018 and HK$4,958,102,000 used in the cost of sales in the following year. As the Financial Statements did not be presented in the format of fixed or variable costs, we took 'Cost of sales' as the variable cost in our calculation. As the following in calculating the contribution margin ratios (C.M.R.):

[ (Turnover - cost of sales) / turnover ] x 100%

2018(‘000): $ [ (8,017,613 - 4,643,747) / 8,017,613 ] x 100%

= $ ( 3,373,866 / 8,017,613 ) x 100%

= $ 42.08067912…%

(~ 42.08%)

2019(‘000): $ [ (8,375,900 - 4,958,102) / 8,375,900 ] x 100%

= $ ( 3,417,798 / 8,375,900 ) x 100%

= $ 40.80514333…%

(~ 40.81%)

The contribution margin ratios are an equation that usually to shows the percentage of contribution margin in the total net sales. It shows the percentage of the sales income of the company after covered the fixed expenses and the total percentage of profit after covering all variable costs of producing the product. According to the above calculation, the contribution margin of 2018 is around 42.08% and it is around 40.81% in 2019. we learn that there are at least 40% of sales are available to cover the fixed expenses and it helps Sa Sa Intl. to achieve its profit target in these two years. Sa Sa Intl. got a positive business and enough sales to do the producing cost-covering.

Besides, we also have to know the break-even sales level of Sa Sa Intl. , so that we can a baseline for the lowest amount sum to be sales each year to prevent losses and to do the business decision and producing management. According to the consolidated income statement for the year ended 31 March 2019 of Sa Sa International Holdings Limited (Sa Sa Intl.), as the following in calculating the break-even sales revenue:

[(Fixed Expenses) / Contribution margin percentage] = Breakeven Sales Revenue

[(Selling and distribution costs + Administrative expenses) / Contribution margin percentage]

2018(‘000):

$ [ (2,608,162 + 315,474) / (42.08067912%) ]

= $ ( 2,923,636 / 42.08067912% )

= $ 69476.92055

(~$ 69476.92)

2019(‘000):

$ [ (2,655,732 + 322,338) / (40.80514333%) ]

= $ ( 2,978,070/ 40.80514333% )

= $ 72982.71142

(~$ 72982.71)

The above calculation shows that the break-even sales revenue is around HK$69476.92('000) in 2018 and around HK$72982.71('000) in 2019. According to the consolidated income statement for the year ended 31 March 2019 of Sa Sa Intl., there are sales HK$8,017,613,000 gained in 2018 and HK$8,375,900,000 gained in 2019. It sells a lot more above the baseline of break-even. Both of these two years, it is no problem with the production costs and expenses covering and it results that Sa Sa Intl. is now having a positive business operating environment.

Chapter 5**Copied**

## **5.1 Acid Test Ratio**

Acid test ratio (also named quick ratio) is similar to the current ratio (Acid-Test Ratio, 2020). It is a liquidity ratio that compare a company’s short term assets and the short term liabilities to see whether the current assets can turn to cash quickly. But the acid test ratio will exclude the inventories because not all inventories can convert it to cash easily.

So, how can we know the company’s current operation by acid test ratio? The higher the acid test ratio, the more liquid the business is considered to be in short term. When the quick ratio of the company is greater than 1.0, they have enough money to encounter their short term liabilities. If it is below 1.0, the company may have difficulties to pay for short term debts and payments. But there also are companies that would not cause any liquidity problems even they have low acid test ratio (Advantages and Disadvantages of Acid Test Ratio, 2020).

When the acid test ratio of a company increases, it shows that the company is in a positive growth, they are able to convert their receivables to cash, and balance their financial obligation undoubtedly. These kinds of companies usually have a faster inventory turnover and cash conversion cycles. In contrast, when the company has a diminished curve in the quick ratio, it means that the company may in the red. They may feel difficult to maintain or expand sales, or the receivables they collected is too slow. The formula of the acid test ratio is shown in the following:

Acid test ratio of 2018: [3080350 + (145417 + 232310 + 915802 + 449558)] / 1037481

= 1.68 (correct to 2 d.p.)

Acid test ratio of 2019: [3888347 + (112701+221274+589512+551134)] / 863540

= 2.87 (correct to 2 d.p.)

As we can see from the above, the acid test ratio of 2018 and 2019 are 1.68 and 2.87 respectively. The acid ratio of Sa Sa International Holding Limited has a difference of 1.19 in the year of 2018 and 2019 that increased from 1.68 to 2.87. It shows that Sa Sa International Holding Limited may experiencing top line growth. Their current operation may be secure in short term.

Although the acid test ratio tells us Sa Sa International Holding Limited is in a healthy situation, we should also concern other factors that may affect the company’s operation. For example, the company’s inventories are not included in the calculation of acid test ratio. This might affect the estimation of the company as some businesses can have a valuable price in its inventories.

Also, acid test ratio is not a good indicator for business models that shows short term solvency, it is not accurate to those companies that have high inventory. The timing and the level of cash flows are passed over in the quick ratio. But these are important specification to decide if the company has the ability to pay for the liabilities.

## **5.2 Gearing Ratio**

Gearing ratio is a general term that defines a financial ratio that measures a sort of owner’s equity (or capital) to the funds lent by the firm (What Is a Good or Bad Gearing Ratio?, 2020). Gearing ratio can indicate the financial risk of a company. When the company has too much debt, it may fall into financial distress. It is used to measure the contribution of long term lenders to the long term capital structure of the business and is one of the most popular methods to estimate the company’s financial operation.

When the company has a high gearing ratio, it means that the company has a greater proportion of debt to equity. On the other hands, company has a low gearing ratio shows that they have a small-scale of debt to equity. Therefore, higher the percentage, higher the financial risk. As when they have low receivable but with a high interest rate, the company may fall into bankruptcy and loan default.

If the gearing ratio of a company is higher than 50%, it is evaluated as a high gearing ratio. Gearing ratio between 25% and 50% will evaluate as deep-rooted enterprises. They have well financial operation. And for company that has a gearing ratio lower than 25%, it means that both investors and lenders have lower probability on financial problems. The formula of gearing ratio is presented in the following:

Gearing ratio of 2018: [56727 / (303885 + 2178955 + 56727)] × 100

= 2.23% (correct to 2 d.p.)

Gearing ratio of 2019: [56332 / (309560+ 2177048 + 56332)] × 100

= 2.22% (correct to 2 d.p.)

The gearing ratio of Sa Sa International Holding Limited is 2.23% to 2.22% in 2018 and 2019 respectively. It decreased 0.01% in 2019. Gearing ratio of Sa Sa International Holding Limited in both 2018 and 2019 is low. It shows that the probability of the company having financial problem is low. Although the gearing ratio of Sa Sa International Holding Limited is low, the financial risk of the company is low, they may miss the chance to expand their business as not all debt is bad.

For company that has a high gearing ratio, it is not always means that they have high risk of financial problems. For example, when company produce new products or want to expand their business, dept can help them. After the product produced or after they expand their business, the profit return may higher than the debt they have lent. Therefore, high gearing ratio is not always a bad thing. Also, to evaluate a company’s financial situation, we can not only use gearing ratio to determine a company. We can use it as a reference, but we always need to compare company’s gearing ratio with other companies in the same field and need to consider other factors of the company too.

## **5.3 Compare Acid Test Ratio with Gearing Ratio**

From 5.1, we can see that the acid test ratio in 2018 (1.68) and 2019 (2.87) of Sa Sa International Holding Limited is larger than 1.0 and it is in a positive growth. The current operation of the company is secure and is in a healthy situation.

From 5.2, we can see that the gearing ratio in 2018 (2.23%) and 2019 (2.22%) of Sa Sa International Holding Limited is about the same. They are both lower than 25%, that means both lenders and investors have low risk of financial problem.

To conclude, Sa Sa International Holding Limited has a healthy financial operation and it is growing. As they have a healthy financial situation, they can try to expand their business in order to boost more profit.

Chapter 6

Conclusion and Recommendation

In conclusion, we have discussed some of the business situation and analysis the regression of Sa Sa International Holdings Limited. Sa Sa Intl. founded their stores in the format of one-stop shopping like shopping in a cosmetic supermarket and make an innovative business, online shopping in recent years. Their products come from different countries around the world, for example, Korea, mainland China, Taiwan and french, etc. Also, they provide the services of makeup and skincare opinion by the professional expert which builds them a good image and brand level. Positive customer experience and collaboration with a different brand is their special attracting point.

Chapter 2,3 conclusion

Moreover, for the part of calculating the C.M.R. and break-even analysis which shows the positive business environment in 2018 and 2019. Sa Sa Intl. gained enough sales to cover their production cost and both variable and fixed expenses. For the recommendation, it is suggested that the group can expand their business or produce more products to gain more profit the breakeven revenue is positive. However, the current coronavirus may make a big risk if the company expands its business now as the customer may not want to spend their money on cosmetics. We see that retail sales in the first five months this year are still weak, and multiple retail categories have also recorded year-on-year declines so it is suggested that keep the current operation and cut some of the costs to ensure the operation in the foreseeable future.

Chapter 5 conclusion

Chapter 7

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