

SECTION A

Answer ALL questions in this section.

1. What is indirect compensation? State two purposes of providing indirect compensation to employees. (6 marks)
2. Outline the three essential elements of a sales and purchase contract of a product. (6 marks)
3. Collective bargaining can promote industrial relations in several ways. Explain three of these ways. (6 marks)
4. With reference to any three management functions, explain how budgeting is useful to the management of a company. (6 marks)
5. State three benefits to a bookstore of using e-marketing to perform its distribution function. (6 marks)

SECTION B

Answer ALL questions in this section.

6. Mr Li is an experienced chef who has worked for several five-star hotels in Hong Kong. Two years ago, Mr Li established a French restaurant called Platine in Tsim Sha Tsui. Platine offers a good selection of traditional French cuisine and wines in a spacious environment. As Mr Li likes eating fine food, almost all the ingredients and wines of the restaurant are imported from France. Platine's profits were satisfactory in the first year after its commencement. However, sales declined and losses were incurred in the last few months. To turn the situation around, Mr Li has employed a management consultant, Mr Sze, to analyse the restaurant's problems.

After a thorough investigation, Mr Sze thinks that high inventory cost, such as the inventory cost of oysters, is one of the reasons for the losses. The past sales records show that Platine sold 400 dozens of oysters each week. Oysters were ordered in dozens and the ordering cost was \$800 per order. The average holding cost per dozen oysters was \$16 per week. As oysters are among the favourite dishes provided by Platine, it is the restaurant's practice to order 600 dozen oysters each time to avoid shortages. Hence, many oysters have to be disposed of, leading to an unnecessary cost to the restaurant. In view of this, Mr Sze suggests that the restaurant can adopt the Economic Order Quantity (EOQ) model to reduce its inventory cost.

Mr Sze explains that fluctuations in the exchange rate of the Euro also have a great impact on the restaurant's profits as most of its ingredients and wines are imported from France. He then mentions that hedging is a method commonly used to manage such risk.

Finally, Mr Sze comments that fine food quality and nice dining environment are not enough to keep customers as they consider a lot of factors in making their purchase decisions. Mr Sze suggests that Mr Li should make use of the marketing concept in operating his restaurant and at the same time develop effective marketing mix strategies to enhance its competitiveness.

- (a) (i) Explain how the use of the EOQ model can reduce inventory cost. (3 marks)
(ii) Using the EOQ model, calculate the optimal order quantity of oysters (in dozens) for Platine. Show your workings. (2 marks)
- (b) Briefly describe two ways to hedge against the Euro exchange rate risk. (4 marks)
- (c) Use the case of Platine to illustrate the meaning of marketing concept. (3 marks)
- (d) With reference to the customer decision-making process, outline the steps Platine's customers should take before they make their purchase decisions. (6 marks)
- (e) Other than product, there are three other elements of the marketing mix. Suggest one way in which Platine can use each of these other elements to enhance its competitiveness. (6 marks)
- (Total: 24 marks)

7. Skyline Airways is a long-established listed company based in Hong Kong. The company has a wide network serving travellers all over the world. Over the last decade, the company has gained a reputation and its earnings were satisfactory.

At a regular meeting, the Customer Relations Manager reported that there had been an increase in the number of customer complaints against crew members. The Human Resources Manager commented, "Our company policy and working conditions are among the best. The salary and welfare of the crew members have been improving, making our compensation packages more competitive than the other airline companies. However, the supervisors tend to be conservative in appraising employees, so only a small number of crew members get promoted. This may adversely affect their morale."

The Financial Manager raised other concerns, "We are in a period of economic fluctuation and rising oil price, which may affect our profits. Unfortunately these risks are uninsurable. Also, more and more travel agencies delay their payments. As we rely quite heavily on agencies' sales, it seems that there is a need to review and tighten the existing credit policy."

The Chief Executive Officer (CEO) added, "Apart from the above problems, we are now facing increasing risks and challenges as a result of rapid environmental change. Even though the company is able to maintain its business, exploring ways to expand and diversify our business is of great strategic importance. Therefore, we are now planning to take over a flight catering company which involves a substantial amount of money. On top of the cash reserve, we need to find other ways to obtain more funds for the takeover."

The meeting ended with the CEO's request for a proposal from the top management on the issues raised, which would be discussed at the next meeting.

- (a) From the perspective of human resources management, identify two possible adverse consequences of crew members' low morale to Skyline Airways. (4 marks)
- (b) With reference to Herzberg's Dual-Factor theory, suggest three ways to motivate the crew members of Skyline Airways. (6 marks)
- (c) Give three reasons why the risk of economic fluctuation faced by Skyline Airways is uninsurable. (6 marks)
- (d) List any two elements of credit policies. Suggest one way in which Skyline Airways can use each of these two elements to reduce the delays in payment by travel agencies. (4 marks)
- (e) Suggest three sources of funds for the above takeover. Give a reason for each of your suggestions. (6 marks)

(Total: 26 marks)

SECTION C

Answer ONE question in this section.

- 8. Training of front-line staff is important to banks.
 - (a) Describe the steps that a bank should take to perform its training function. (10 marks)
 - (b) A large bank is considering buying an expensive computer system to be used for training its front-line staff. Assume the Net Present Value (NPV) method is used to evaluate the purchase of the computer training system, identify the variables of the NPV formula and illustrate the meaning of each with an example. (10 marks)
- (Total: 20 marks)
- 9. Tourism is one of the major industries in Hong Kong. As the number of visitors from the Mainland increases and the industry outlook for the hotel sector becomes more positive, new hotels are going to be set up.
 - (a) Suggest the bases of market segmentation for a new hotel. (8 marks)
 - (b) Illustrate with examples to explain why customer relationship management (CRM) is important to a hotel. (12 marks)

(Total: 20 marks)

END OF PAPER