

**AQA**  
**Business Studies**  
**Units 2 and 3**  
**Case Study for June 2005**  
**Chinatown**

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**1 May 2005**



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## **Introduction**

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These resources are aimed at helping you to get to grips with the AQA Business Studies Case Study for the June 2005 exam for Units 2 and 3. It has been prepared in the form of a dialogue between Jack Wei and an interviewer. This approach allows us to take all of the issues that arise from the case and give Jack's point of view (as we see it anyway!). This dialogue is entirely fictional since Jack doesn't exist and neither does the interviewer.

There will be six interviews overall: one for each section of the case study. The titles of each interview will be

- ◇ The Beginning
- ◇ Great Leap forward
- ◇ From tertiary to secondary
- ◇ Making it happen
- ◇ Running the business
- ◇ **Another step forward?**

The interviews will be released at weekly intervals from now on with the first interview, the beginning, being released on 28 March 2005.

The case itself is the copyright of the AQA Board and can be downloaded free of charge from this address: <http://www.aqa.org.uk/qual/gceasa/qp-ms/AQA-BUS23-W-PM-Jun05.pdf>

We are using the case study as the basis of all of the interviews but are then adding our analysis of the case plus a wide variety of additional materials that we feel are appropriate for a full analysis of it.

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### **Another step forward?**

**Interviewer:** Thanks again Jack for agreeing to see me again; and I was so happy to meet Ling last week. She told me so much and she's so quick and clever.

**Jack:** I'll tell her, she said she took a shine to you too!

**Interviewer:** I'm flattered! So, Jack I think we'll just about come to the end of this project today as there are just a few things left to say. Very important things to say, too.

What was your reaction when you heard that Carrefour had approached Ling with some kind of offer of a deal to supply them with ready made Chinese meals.

**Jack:** Well, Ling was breathless when she called me. She was so excited. I'm afraid I made her angry and upset with my reaction. I was worried that we would be taking huge risks in accepting such a deal. It would mean increasing factory capacity well above what we had planned for.

I also asked what the point was of further expansion, when we were already making higher annual profits than the family could possibly need?

I know now that from a human point of view Ling just wanted someone to say 'Well done, this shows that the world knows about your successful ways with business. She cried for the first time since I'd met her and I felt ashamed.

Ling also wanted *Wei Foods Ltd* to reach its potential: to see how far she could go. Just as I had done with my restaurant. I felt the problem, though, was that she was going to stretch herself too much. After all, she was running a multi million Pound business from scratch with no previous experience, with a single customer ... you see the point?

**Interviewer:** I understand that at a shareholders' meeting later that week, the China Merchant Bank was fully behind the expansion. The bank agreed that a new £6 million factory would be needed and that they were happy to lend £5 million of that.

**Jack:** Yes, that's right and their interest rate was very competitive at just 8%. We felt that this low rate reflected the confidence that the bank had in *Wei Foods* and Ling. Remember when I started, my cousin charged me 15%. Such confidence!

One of the conditions of the loan was that the Bank would also want to handle all foreign currency transactions for us: we felt that was fine and it is in line with modern banking practices in Europe now where treasury management is often centralised in such a way.

My uncle, Sam Yip, was worried about the economic climate: he felt it wasn't so rosy. He said, 'If Carrefour dropped the contract after a few months: what would we do with all that capacity?'

Ling explained that the contract would have a three month cancellation clause and in any case, she was sure that they could use the capacity, especially if they closed the existing Northampton factory.

I was surprised to hear this coming from Ling. My tigris sounding so strong and confident. I was worried by her relaxed tone when talking about the closure of a factory employing over a hundred people.

**Interviewer:** Did you think that Sam’s concerns were real, though?

**Jack:** The Merchant Bank did and their representative promised to get the Bank’s economists to send through a summary of the latest estimates and forecasts from various City economists. This is what they sent us:

**Table 1: UK macro-economic forecasts**

	Euros per £			Average % increase in earnings in the UK*			UK interest rates %		
	Max	Ave	Min	Max	Ave	Min	Max	Ave	Min
December 2005	1.58	1.49	1.31	4.5	3.6	2.2	4.75	4.25	3.25
June 2006	1.68	1.53	1.22	4.6	3.5	2.1	5.50	4.50	3.50
December 2006	1.70	1.55	1.22	4.9	3.4	2.0	6.00	4.50	3.50

Max = Highest forecast made by any of the economists  
Ave = Average of the forecasts made by the economists  
Min = Lowest forecast made by any of the economists

\*compared with 12 months’ ago

**Table 2: Macro-economic forecasts**

	UK Inflation (% increase)			UK unemployment (% actively seeking employment)			Euro interest rates %		
	Max	Ave	Min	Max	Ave	Min	Max	Ave	Min
December 2005	2.4	1.7	1.1	5.1	4.8	4.2	4.25	3.25	2.25
June 2006	2.6	1.4	0.9	5.4	4.7	4.1	5.00	3.50	2.25
December 2006	2.8	1.3	0.8	5.6	4.7	4.0	5.75	3.50	2.50

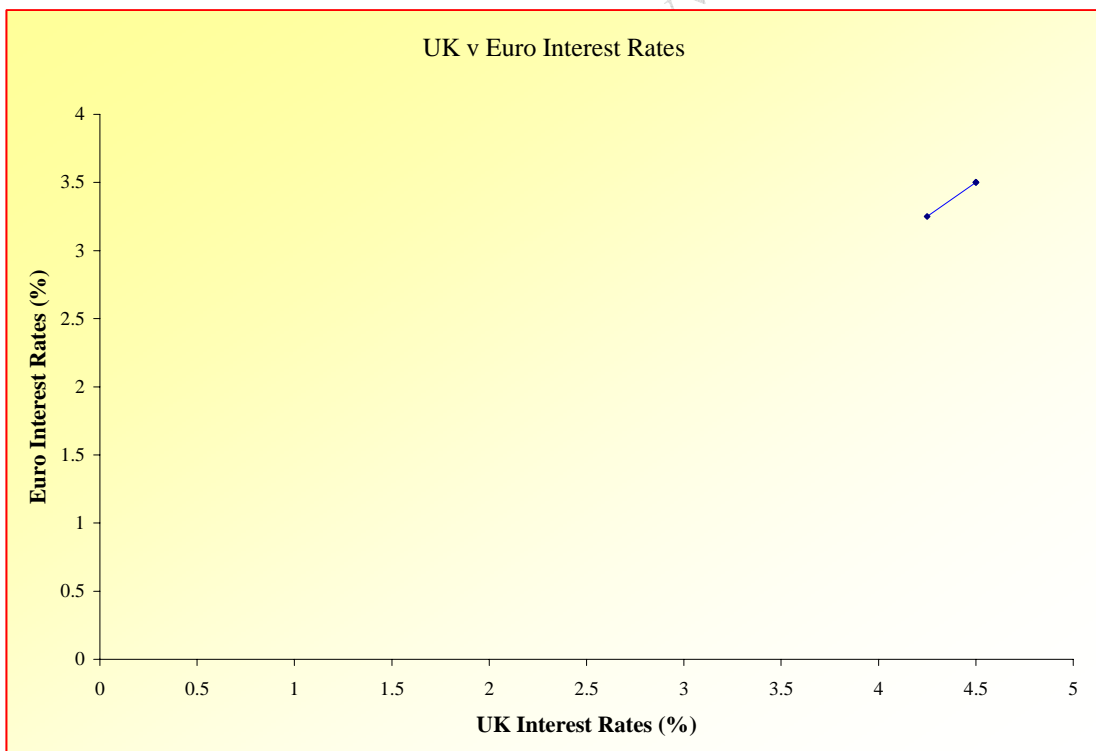
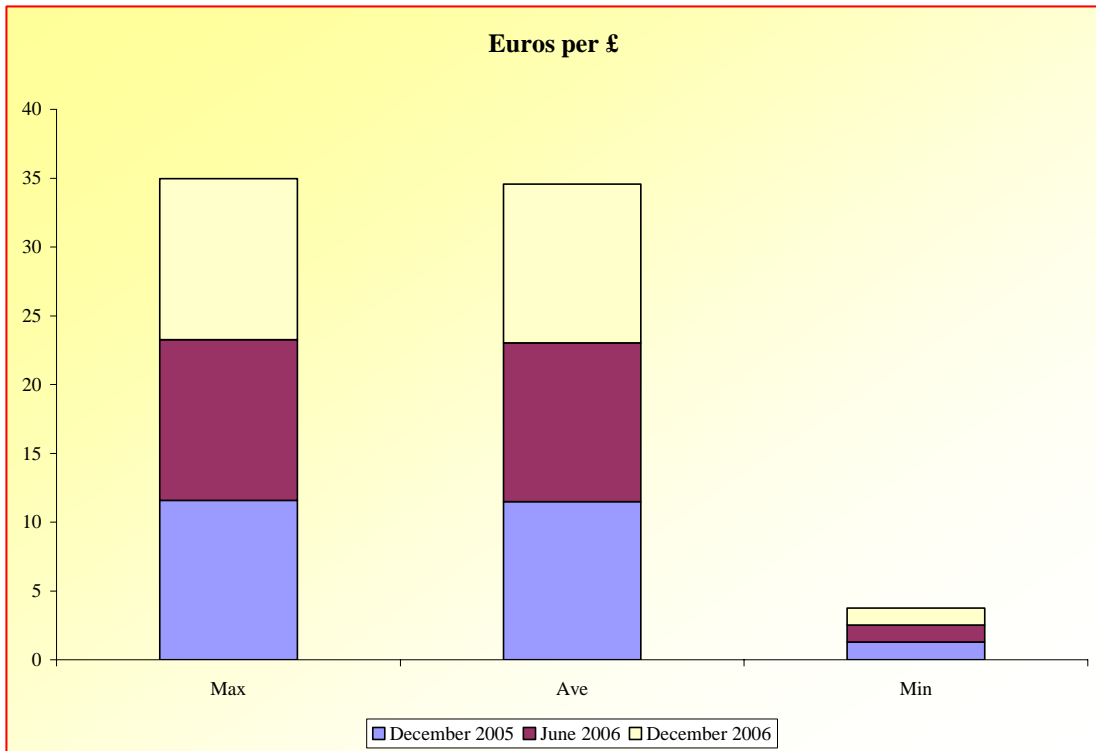
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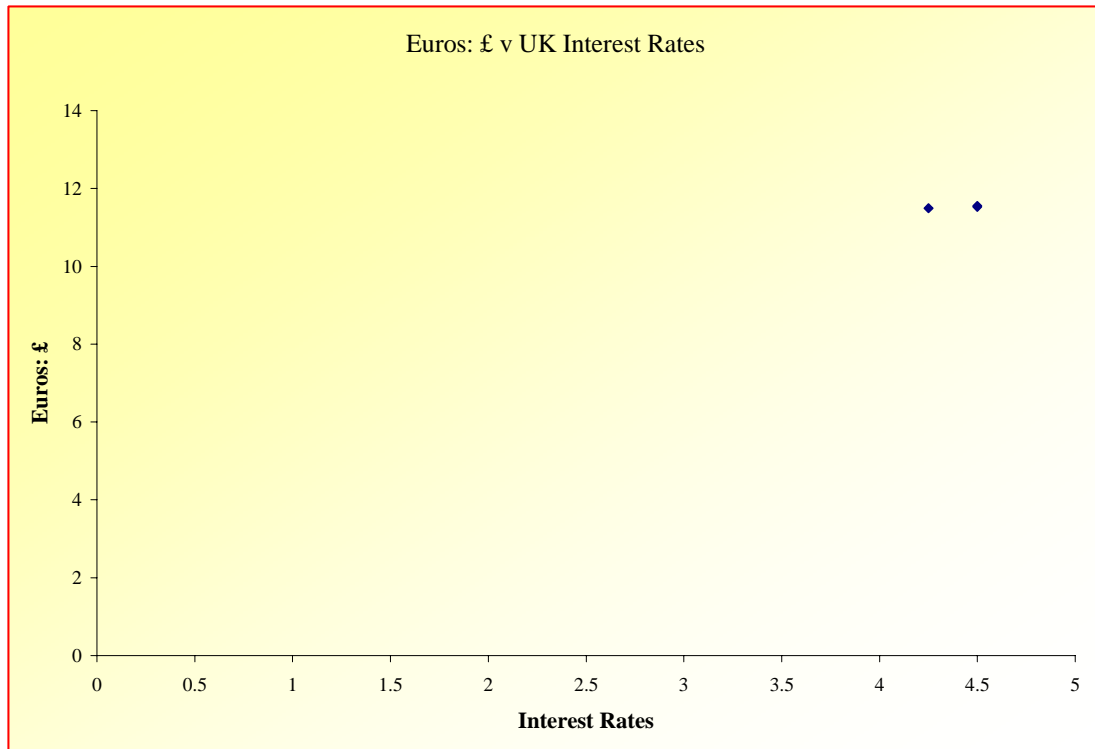
Ling was clear about what she wanted.

I knew that I would have to support her; but I told her that I could support her **only** if the economic data looked good. Otherwise I would have to support uncle Sam Yip: such a difficult decision.

**Interviewer:** There isn’t much data to work on here is there Jack. Not very good for a Merchant Bank, I’d say.

**Jack:** You’re right: we spent a long time trying to work out what everything meant and all we got was a few not very good graphs. Look at these:





I wish they'd given us more information rather than three estimates of the same things. I can see, for example, that there are all sorts of possibilities as far as making forecasts are concerned but so what?

**Interviewer:** The graphs are not very good but have you tried drawing up some budgets using the various forecasts and seeing the different effects they might have

**Jack:** I'm impressed: give me an example of what you mean.

**Interviewer:** Well, you can say that you expect to employ, say 50 people at £5 an hour, 25 people at £5.5 an hour and so on. Then you could estimate the number of hours for the year.

You could see whether it might be better to negotiate a loan in Euros rather than in Pounds.

You could also estimate the effects of inflation on your raw material costs by using table 2 if I'm not much mistaken.

**Jack:** Here, use my laptop and show me what you mean.

(An hour later, Jack starts to read through the tables that our intrepid interviewer has prepared).

	Sales forecast	€ £ Exchange Rate	Euros
For the six months to	£	€ £	€
December 2005	£32,500,000	1.49	48,425,000 €

June 2006	£32,500,000	1.53	49,725,000 €
December 2006	£32,500,000	1.55	50,375,000 €

	<b>Loan in £</b>	<b>Interest in £</b>	<b>Loan in Euros</b>	<b>Interest in Euros</b>
December 2005	5,000,000	200,000	7,616,667	266,583
June 2006	5,000,000	200,000	7,616,667	266,583
December 2006	5,000,000	200,000	7,616,667	266,583
<b>Totals (Converted into £)</b>	<b>5,000,000</b>	<b>600,000</b>	<b>5,000,000</b>	<b>525,000</b>

**Interviewer:** I used average exchange rates for this loan interest table. Even if I'm wrong; and the bank would work it out properly, you can see that a French loan in Euros could be 1% cheaper than a British loan and the exchange rate is moving in your favour if the forecasts are correct. Look at this:

If you convert the loan interest into £ every half year you can see that the amount Ling will be paying in £ will fall.

<b>Interest in Euros</b>	<b>€ £</b>	<b>£</b>
266,583	1.49	178,915
266,583	1.53	174,237
266,583	1.55	171,989

For the next table I have assumed that purchases of materials will be £850,000 a week and again I used the average inflation forecast.

<b>Effects of Inflation on Purchases</b>	<b>Purchases</b>	<b>UK Inflation rate</b>	<b>Inflated Purchases</b>
	£	%	£
December 2005	£22,100,000	1.70	£22,475,700
June 2006	£22,100,000	1.40	£22,409,400
December 2006	£22,100,000	1.30	£22,387,300
<b>Totals (Converted into £)</b>	<b>£66,300,000</b>		<b>£67,272,400</b>

Now I used the maximum inflation estimate then the minimum inflation estimate and got these inflated purchases, again assuming weekly purchases of £850,000:

<b>Max UK Inflation rate</b>	<b>Inflated Purchases</b>	<b>Average UK Inflation rate</b>	<b>Inflated Purchases</b>	<b>Min UK Inflation rate</b>	<b>Inflated Purchases</b>
%	£	%	£	%	£
2.4	22,630,400	1.7	22,475,700	1.1	22,343,100
2.6	22,674,600	1.4	22,409,400	0.9	22,298,900
2.8	22,718,800	1.3	22,387,300	0.8	22,276,800
	<b>68,023,800</b>		<b>67,272,400</b>		<b>66,918,800</b>

In summary that gives you estimates of purchases of

December 2005	based on maximum inflation	£68,023,800
June 2006	based on average inflation	67,272,400
December 2006	based on minimum inflation	66,918,800

**Jack:** Wow! Thank you. I am good at cooking and I am good at everything to do with running a restaurant and helping Ling with her factory but I could never have done any of these ... and so quickly too!

You realise that you can't use any of these in your articles.

**Interviewer:** Of course not, they are highly confidential. In any case, I made up my own figures for most things but I confess that I used some data that we have talked about over the last few weeks. Look, it's your laptop and your paper and I haven't even brought my memory stick with me.

**Jack:** I trust you but I need to make sure that we know where we stand.

I am very grateful for these ideas and I will certainly talk to Ling and the bank about a cheaper interest rate by borrowing in Euros ... to see if the estimates the bank gave us are reliable ... and so on.

Now, how about some of my famous Chinese tea?

**Interviewer:** Yes please!