

2022

5. Which of the following is a possible reason for turning a firm from a sole proprietorship to a partnership?
- A. The firm can get more profit.
 - B. The firm can enjoy a wider scope of specialisation.
 - C. The firm will become an independent legal entity.
 - D. Business risk will be reduced as all partners have unlimited liability.

6. The Walt Disney Company (華特迪士尼公司) expanded its business to provide video streaming service, Disney+.



Which of the following are most likely the motives behind the expansion?

- (1) to spread risk by service diversification
- (2) to extend its brand name to other products
- (3) to enjoy economies of scale

- A. (1) and (2) only
- B. (1) and (3) only
- C. (2) and (3) only
- D. (1), (2) and (3)

1. (a) Mary was the major shareholder of a private limited company which operated a restaurant chain. She planned to change the form of business ownership to a listed company. List **ONE** advantage and **ONE** disadvantage of the change. (2 marks)
- (b) After opening some new restaurants, Mary found that the average cost of production of her company had increased. Explain the change in average cost with **ONE** reason. (2 marks)

SECTION 4: OWNERSHIP & EXPANSION OF FIRMS

4.1 PUBLIC ENTREPRISES

Multiple Choice Questions

1991/CE/II/13

Which of the following statements is true about the public utilities in Hong Kong?

- A. All public utilities are government-owned.
- B. The setting up of public utilities requires government franchises.
- C. The government has imposed a maximum limit on profits on all public utilities.
- D. In return for a franchise, a public utility is regulated by the government.

1991/CE/II/14

Which of the following is a possible consequence when government-run car parks become privately run? In these car parks, there will be

- A. greater efficiency in management.
- B. more car theft.
- C. less frequent changes in parking fees.
- D. shorter business hours.

1992/CE/II/19

Which of the following is an advantage of Tate's Cairn Tunnel (大老山隧道) being run by the private sector rather than by the government?

- A. The private firm has more freedom in staff management.
- B. Management by the private firm helps to ease traffic congestion.
- C. The private firm charges users a lower price than the government would charge.
- D. The private firm pays a lower interest rate on its loans than the government would have to pay.

1993/CE/II/12

Which of the following is true about the post office in Hong Kong?

- A. It is a kind of capital.
- B. It is granted a franchise by the government.
- C. It faces no competition in providing its services.
- D. It pays dividends to its employees whenever there is a profit.

1993/CE/II/17

In Hong Kong, a public radio broadcasting company enjoys the following advantage over a private radio broadcasting company:

- A. lower production costs
- B. priority in obtaining world news
- C. a more extensive division of labour
- D. the ability to deal more easily with financial difficulties

Short & Structured Questions

1993/CE/II/3(a)

The Mass Transit Railway Corporation (MTRC) is a public corporation.

- (i) Who owns a public corporation? (2 marks)
- (ii) From the view point of society, give **TWO** advantages a public corporation has over a government department and **ONE** advantage it has over a private firm. Answer the question with reference to the MTRC. (6 marks)

(Note: In year 2000, the MTRC was privatized and has since then become a listed company.)

2017/DSE/II/10(b)

MTR Corporation Limited (stock code: 66) provides railway services in Hong Kong.

Some politicians suggest that the government should buy back the shares of MTR so that the company would become wholly owned by the government. Discuss the suggestion by giving **ONE** argument **FOR** and **ONE** argument **AGAINST** it. (4 marks)

2019/DSE/II/3

Give **ONE** example of public corporation in Hong Kong. With reference to your example, state **TWO** advantages of providing the service by a public corporation instead of a private enterprise. (3 marks)

MARKING SCHEME

1991/CE/II/13
D

1991/CE/II/14
A

1992/CE/II/19
A

1993/CE/II/12
A

1993/CE/II/17
D

Note: Figures in brackets indicate the percentages of candidates choosing the correct answers.

1993/CE/II/3(a)

- (i) The government (2)

- (ii) Advantages over a government department
- profit motive
 - more flexible operation e.g. less red-tape
 - higher incentive to lower production cost / efficient use of employees
 - better control of employees
 - more responsive to consumers' demand
 - more innovative e.g. stored valued ticket
- [Mark the **FIRST TWO** points only.] (2@, max: 4)

Advantages over a private firm:

- sound financial structure (financially backed up by the government) / lower interest on loans borrowed (with government as guarantor)
 - better overall planning / co-ordination of transportation services
 - government may receive dividend from the corporation
- [Mark the **FIRST** point only.] (2@, max: 2)

2017/DSE/II/10(b)

Arguments supporting the suggestion:

- Government will have a better control of the train fare, and it can freely reduce the fare to relieve the burden of the passengers
- If MTR is fully owned and supported by the government, that would make it easier for MTR to get loans to fund its operation or investment. (2@, max: 2)

Arguments opposing the suggestion:

- It may lower the efficiency of MTR's management and reduce its sensitivity to market (price) signals.
 - The money involved in the purchase of MTR is substantial. The government may have better alternative uses of the money, such as education and medical services. (2@, max: 2)
- [Mark the **FIRST** point only.]

2019/DSE/II/3

Examples:

- HK Airport Authority
- Hong Kong Export Credit Insurance Corporation
- any other relevant example

[Mark the **FIRST** point only.]

Advantages:

- easier to get information about the general public from the government for decision-making
- can provide stable service with a lower price
- easier to get loan with the backup of the government
- any other relevant point

[Mark the **FIRST TWO** points only.]

Marks
(1)

} @1
max: 2

4.2 SOLE PROPRIETORSHIPS & PARTNERSHIPS

1990/CE/II/12

The advantages of sole-proprietorship include

- (1) limited liability
 - (2) flexibility in decision making
 - (3) a high degree of division of labour
 - (4) more personal contact with customers
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (4) only
D. (3) and (4) only

1990/CE/II/21

Mr. Chan was one of the owners of a trading firm which recently went bankrupt. The court then took over his personal property. To what kind of business ownership did this trading firm belong?

- A. sole-proprietorship
B. partnership
C. private limited company
D. public limited company

1991/CE/II/15

Which of the following is an advantage of a partnership over a sole proprietorship?

- A. a stronger incentive for efficiency.
B. more flexibility in making management decisions.
C. a wider range of abilities and talents in management.
D. limited liability to all partners.

1993/CE/II/09

Peter and Joan form a general partnership. Which of the following is true?

- A. One of them enjoys limited liability.
B. Peter and Joan share the profits, if any, equally.
C. If Peter borrows money in the name of the partnership, Joan is also liable for this debt.
D. Peter can transfer his ownership in the partnership without Joan's agreement.

1993/CE/II/09

Which of the following is a feature of a general partnership?

- A. Only the sleeping partners enjoy limited liability
B. The business will be dissolved on the death of any one partner
C. All partners enjoy an equal share of the firm's profit
D. The consent of the majority of partners is needed for the transfer of shares

1999/CE/II/17

Mr Lee is medical doctor and manages a clinic. He is responsible for the loss in excess of the capital he has contributed to the firm. The firm is a _____ and Mr Lee is a _____

- (1) sole proprietorship sole proprietor
(2) partnership general partner
(3) (out of syllabus)
- A. (1) only
B. (2) only
C. (1) or (2)
D. (2) or (3)

1999/CE/II/18

John, Andy and Sammi form a general partnership. Which of the following is true?

- A. They share profit equally.
B. They can transfer their ownership freely without the consent of other partners.
C. They have to bear unlimited liability
D. They have to disclose the financial conditions of the partnership.

1999/CE/II/21

Partnership _____ than sole proprietorship.

- A. has more capital
B. is a less risky type of ownership
C. enjoys more economies of scale
D. has less flexibility in decision making

2000/CE/II/20

Mr Wong and Mr Chan have formed a partnership. Which of the following statements is correct?

- A. They enjoy limited liability.
B. The transfer of ownership does not need the other partner's consent.
C. Each of them is responsible for the business decisions of the other.
D. The accounts of the partnership have to be disclosed to the public.

2001/CE/II/22

Mr Lee is a private medical doctor. He wants to expand his business. He can raise funds by

- (1) borrowing from banks.
(2) inviting partners to form a general partnership.
(3) forming a private limited company and issuing shares.
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)

2005/CE/II/22

Which of the following is an advantage of general partnership over sole proprietorship?

- A. The owners enjoy limited liability.
B. It has a wider source of capital.
C. The risk of running the business is lower.
D. There is no need to disclose its financial accounts to the public.

2009/CE/11/21

Mr. Lee, a sole proprietor, expands his business by forming a general partnership with Mr. Chan. As a result,

- A. their liability to the firm is confined to their investment in the firm.
- B. they have to share profits equally.
- C. each of them has to be responsible for the business decisions of his partner.
- D. they can issue shares to raise capital.

2014/DSE/1/08

Which of the following statements about partnership and sole proprietorship is correct?

- A. Partnership has better continuity than sole proprietorship.
- B. Partnership has less flexibility in decision making than sole proprietorship.
- C. Partnership has more capital than sole proprietorship.
- D. Partnership enjoys more economies of scale than sole proprietorship.

Short & Structured Questions

1995/CE/1/1

李、周、林律師行
Lee, Chau, Lam & Co., Solicitors

To what type of business ownership does the above firm belong? List **THREE** features of this type of business ownership. (4 marks)

1995/CE/1/11(c)

Many small property agencies in Hong Kong register as sole proprietorships rather than limited companies. Give **THREE** advantages of a sole proprietorship compared to a limited company. (6 marks)

1998/CE/1/9(b)

The restaurant is general partnership. Explain **TWO** advantages of a general partnership over a sole proprietorship. (4 marks)

2018/DSE/II/2(a)

Last year, Peter operated a sole proprietorship. Recently he invited Paul and Mary to form a partnership to expand the business to other markets. Suggest **TWO** reasons why Peter switched his firm's form of business ownership for expansion. (2 marks)

MARKING SCHEME

1990/CE/11/12 C	1993/CE/11/09 C	1999/CE/11/18 C	2001/CE/11/22 A	2014/DSE/1/08 B (74%)
1990/CE/11/21 B	1993/CE/11/09 B	1999/CE/11/21 D	2005/CE/11/22 B (80%)	
1991/CE/11/15 C	1999/CE/11/17 C	2000/CE/11/20 C	2009/CE/11/21 C (32%)	

Note: Figures in brackets indicate the percentages of candidates choosing the correct answers.

1995/CE/1/1
(General) partnership (1)

- 2 to 20 partners
 - unlimited liability / each partner is fully liable for the firm's debts
 - death and bankruptcy of a partner will lead to dissolution of the partnership
 - act by one partner binds all other partners
 - difficult to admit or withdraw partners
 - financial statements need not be publicly disclosed (1@, max: 3)
- [Mark the **FIRST THREE** features only.]

1995/CE/1/11(c)
- low set up cost
- easy to set up and dissolve, so suitable to business with sudden ups and downs
- lower profits tax rates
- low accounting cost (2@, max: 6)

[Mark the **FIRST THREE** points only.]

1998/CE/1/9(b)
- wider source of capital
- better division of labour among owners (wider scope of specialization)
- risk and cost can be shared among partners (2@, max: 4)

[Mark the **FIRST TWO** points only.]

2018/DSE/II/2(a)
- Peter wants to invite more investors to get new funds for expansion of his business. (1)
- Peter can make use of different expertise from Paul and Mary in the new markets. (1)

4.3 LIMITED COMPANIES

Multiple Choice Questions

1990/CE/II/07

Which characteristic listed below applies to all limited companies?

- A. The company can own assets in its name.
- B. All shares are quoted on the Stock Exchange.
- C. Shareholders are free to sell their shares to anyone they choose.
- D. (out of syllabus)

1991/CE/II/16

Which of the following is regarded as an advantage for a private limited company to go public?

- A. Shareholders enjoy limited liability.
- B. There is separation of ownership and management.
- C. There is wider scope for raising capital.
- D. Shares become transferable.

1993/CE/II/10

The Bank of Credit and Commerce Hong Kong Limited (BCC HK) was a private limited company. When it was closed in 1991,

- A. the shareholders could avoid losses by selling their shares on the stock market.
- B. the government took over the bank under the Banking Ordinance.
- C. the depositors had the right to claim their money after the shareholders.
- D. the losses of the shareholders were limited to their investment in the bank.

1993/CE/II/13

One of the advantages of a private limited company 'going public' is

- A. limited liability
- B. more access to funds
- C. being subject to a lower profits tax rate
- D. being less likely to be taken over by another company

1994/CE/II/24

A limited company is a legal entity. This implies that

- A. the company must obey the law
- B. the company may sue other persons in its own name.
- C. management and ownership of the company are separated
- D. its shares can be quoted on the stock exchange.

1994/CE/II/25

A public limited company differs from a private limited company in that, for example,

- A. there is no legal maximum limit on the number of shareholders.
- B. Its shareholders enjoy limited liability
- C. (out of syllabus)
- D. It is subject to a higher profits tax rate.

1995/CE/II/24

It is possible for a shareholder to sue his company because

- A. a company enjoys limited liability.
- B. a company is a legal entity.
- C. a company is managed by a broad of directors.
- D. of the separation of management and ownership.

1995/CE/II/25

A public limited company has more advantages in raising capital over a private limited company because the former

- A. is owned by the government but the latter is not.
- B. has more directors.
- C. can issue shares to the general public but the latter can't.
- D. has a larger scale of production.

1996/CE/II/57

Which of the following about the stocks and shares issued by the public limited companies in Hong Kong is **INCORRECT**?

- A. All of them are traded in the Stock Exchange of Hong Kong .
- B. They facilitate the raising of capital of firms.
- C. They provide opportunities for small investors to invest.
- D. Their prices reflect the earning power of the companies.

1997/CE/II/16

If a listed company is converted into a private limited company,

- A. it can avoid being controlled by the government.
- B. its firm size will be reduced.
- C. it can reduce the risk of being taken over.
- D. it loses the status of legal entity.

1999/CE/II/22

Which of the following is an advantage of a public limited company over a private limited company?

- A. a wider source of capital
- B. larger economies of scale
- C. a better specialization in management
- D. large number of shareholders.

2000/CE/II/21

Which of the following are advantage of turning a private limited company into a listed company in the stock market?

- (1) The company gains the status of a legal entity.
- (2) The company enjoys economies of scale.
- (3) The company enjoys a wider source of capital.
- (4) Ownership of the company can be transferred freely in the market.

- A. (1) and (2) only
- B. (1) and (4) only
- C. (2) and (3) only
- D. (3) and (4) only

2001/CE/II/18

	Firm A	Firm B
Legal Status	Legal Entity	Legal Entity
Liability	Limited	Limited
Transfer of ownership	Does not need the consent of other owner(s)	Needs the consent of other owner(s)

Refer to the above table. Which of the following is correct?

- A. Firm A has more capital than Firm B.
- B. Firm A has a greater risk of being taken over by another firm than Firm B.
- C. Firm A is listed company but Firm B is not.
- D. Both firms have to disclose their financial statements to the public.

2002/CE/II/21

If a private limited company in Hong Kong is turned into a public limited company,

- A. the company will pay the profits tax at a higher rate.
- B. the company will gain the status of a legal entity.
- C. the company will have a wider source of capital.
- D. the original owners must increase their investments in the company.

2003/CE/II/19

Mr Chan is one of the owners of a firm which is a legal entity. Moreover, the transfer of Mr Chan's ownership in the firm needs the consent of other owners. The firm is a

- A. general partnership.
- B. limited partnership.
- C. private limited company.
- D. public limited company.

2005/CE/II/20

If a listed public limited company is turned into a private limited company in Hong Kong,

- A. the company will be at a lower risk of being taken over.
- B. the company will pay the profits tax at a lower rate.
- C. the company will lose its legal entity.
- D. the shareholders will bear unlimited liability.

2006/CE/II/20

Angel, Bonnie and Catherine jointly own a firm. The firm is a legal entity. Which of the following statements about the firm must be correct?

- A. The firm can issue shares to raise capital.
- B. At least one of the owners has to bear unlimited liability.
- C. The firm will be dissolved on the death of any one owner.
- D. The accounts of the firm have to be disclosed to the public.

2007/CE/II/22

Which of the following about a public limited company is correct?

- A. The company can be a shareholder of a listed company.
- B. The shares issued by the company are traded on a stock exchange.
- C. The maximum number of shareholders is 50.
- D. It earns greater returns than a private limited company.

2008/CE/II/20

In 2006, the Bank of Communications (交通銀行) quoted its shares on the Hong Kong Stock Exchange. A result of this was that

- A. the Bank became a legal entity in Hong Kong.
- B. the Bank can raise capital more easily in Hong Kong.
- C. owners of the Bank enjoy limited liability.
- D. ownership and management of the Bank can be separated.

2009/CE/II/23

After the 2008 stock market crash, some listed companies in Hong Kong proposed privatizing their companies. If a listed company is privatized and turns into a private limited company,

- A. the company is not a legal entity any more.
- B. the firm's size will be reduced.
- C. the company can enjoy a lower profits tax rate.
- D. the risks of being taken over will be reduced.

2010/CE/II/22

Which one of the following statements about a private limited company is correct?

- A. The shares issued by the company are traded on the stock market.
- B. The transfer of ownership needs the consent of other shareholders.
- C. It has to disclose its financial information to the public.
- D. It is subject to a lower profits tax rate than a public limited company.

2012/DSE/II/09

If a partnership is turned into a private limited company,

- (1) the company will become an independent legal entity.
- (2) the company will be at a higher risk of being taken over.
- (3) the company will pay a higher profits tax rate.
- (4) the number of owners will increase.

- A. (1) and (3) only
- B. (1) and (4) only
- C. (2) and (3) only
- D. (2) and (4) only

2015/DSE/II/07

A firm has an independent legal entity but the owners cannot transfer their ownership without the consent of the other owners. When the owners want to expand the firm's business, they can _____.

- (1) use the retained profit of the firm
- (2) issue shares to the public to raise capital
- (3) borrow from friends to raise capital

- A. (1) and (2) only
- B. (1) and (3) only
- C. (2) and (3) only
- D. (1), (2) and (3)

1990/CE/II/14

Who will receive the repayment first when a company liquidates?

- A. ordinary shareholders
- B. (out of syllabus)
- C. directors
- D. debenture-holders

1992/CE/II/18

On the liquidation of a public limited company, which of the following parties will get their money back before the others?

- A. the shareholders
- B. the debenture-holders
- C. the government
- D. the employees of the company

1993/CE/II/03

Mr. Chan has purchased some shares in a public limited company. Which of the following statements is correct?

- A. He cannot participate in the management of the firm.
- B. He will automatically receive a dividend from the company every year.
- C. His personal accounts have to be disclosed to the public.
- D. His ownership in the company is freely transferable.

1993/CE/II/07

From the viewpoint of a public limited company, which of the following is an advantage of issuing debentures over issuing shares to raise capital?

- A. The company can raise more capital.
- B. The existing shareholders have a better control of ownership of the company
- C. The company can pay less to debenture holders than to shareholders when its profit is small.
- D. It is easier to obtain more bank loans if the company issues more debentures rather than more shares.

1993/CE/II/19

What is the economic role of shareholders in a public limited company?

- A. preparing the company's accounts
- B. making production decisions
- C. bearing risk
- D. sharing profits

1996/CE/II/20

When a public limited company liquidates, which of the following will be the last one to have the right to claim repayment from the company?

- A. ordinary shareholders
- B. (out of syllabus)
- C. debenture holders
- D. employees

1996/CE/II/21

The shareholders of a public limited company is different from the debenture holders of the company in that

- A. the return of shareholders is lower.
- B. the return of shareholders is more stable.
- C. shareholders have a prior claim on the income of the company .
- D. shareholders are owners of the company while debenture holders are not.

1997/CE/II/18

Which of the following sources of finance would most probably reduce the controlling power of the existing shareholders of a public limited company?

- A. a new issue of ordinary shares to the public
- B. (out of syllabus)
- C. a new issue of debentures to the public
- D. a short term loan borrowed from a bank

1998/CE/II/18

Being a small investor, Peter prefers to be a shareholder of a public limited company rather than of a private limited company. This is because

- A. he can enjoy limited liability.
- B. the transfer of ownership is easier.
- C. shareholders have the right to sue the company
- D. there is no legal maximum limit on the number of shareholders of a public limited company.

2002/CE/II/17

Which of the following statements about limited companies in Hong Kong is correct?

- A. Shareholders and debenture holders have to bear unlimited liability.
- B. Issuing more debentures will increase the risk of being taken over.
- C. Shares and debentures of public limited companies are traded on the stock exchange.
- D. Debenture holders can claim the company's assets prior to shareholders when the company goes bankrupt.

2002/CE/II/18

As a small investor, Calvin prefers to purchase the shares of a listed company rather than those of a private limited company in Hong Kong because

- A. the accounts of a listed company have to be audited by certified accountants.
- B. there is a separation between ownership and management in a listed company.
- C. the shares of a listed company are freely transferable on the stock market.
- D. the liability of the shareholders of a listed company is limited to their investment in the company.

2003/CE/II/22

From the viewpoint of investors, which of the following is an advantage of buying debentures over the purchase of shares?

- A. The return of debentures is higher.
- B. Debentures can be sold on the stock exchange while shares cannot.
- C. The market price of debentures is fixed.
- D. Debenture holders have a prior right to get their money back from the company if it liquidates.

2004/CE/II/23

The debentures issued by a listed company _____ be traded on the securities market. The company has to pay the interest to debenture holders _____ the dividends to shareholders.

- A. can _____ before
- B. can _____ after
- C. cannot _____ before
- D. cannot _____ after

2005/CE/II/21

Which of the following descriptions about the shareholders and bondholders of a company is correct?

- A. Ordinary shareholders have a higher return than the bondholders.
- B. (out of syllabus)
- C. Ordinary shareholders are the creditors of the company.
- D. When the company winds up, the bondholders have a right to get the money back from the company in advance of its shareholders.

2006/CE/II/22

From the viewpoint of the company, which of the following is an advantage of issuing ordinary shares over bonds to raise capital?

- A. The company can raise more capital.
- B. The company has the obligation to redeem the bonds but not the ordinary shares.
- C. The ordinary shares can be freely transferable on the stock market.
- D. The liability of the shareholders is confined to the amount they have invested in the company.

2007/CE/II/21

From the viewpoint of the existing shareholders of a listed company, which of the following is an advantage of issuing bonds over ordinary shares to raise funds for future development?

- A. Their power of control over the company will not be diluted.
- B. The interest paid to the debenture holders is lower than the dividend.
- C. The company need not pay interest to the debenture holders when it incurs a loss.
- D. The debenture holders have no right to sue the company, whereas the shareholders do have the right.

2008/CE/II/21

Which of the following methods of raising capital will dilute the controlling power of existing shareholders in a listed company

- A. borrowing from a deposit-taking company
- B. issuing debentures
- C. (out of syllabus)
- D. issuing ordinary shares

2009/CE/II/20

When a public limited company is liquidated, among the ordinary shareholders, preference shareholders, debenture holders, and employees of the company, _____ the have the first priority to claim back _____

- A. ordinary shareholders _____ the money they invested in the company
- B. (out of syllabus)
- C. debenture holders _____ the money they loaned to the company
- D. employees _____ their salaries in arrears

2009/CE/II/22

From the viewpoint of investors, which of the following is an advantage of buying ordinary shares over debentures?

- A. The return of ordinary shares is higher than that of debentures.
- B. The market price of ordinary shares may increase while that of debentures is fixed.
- C. Ordinary shareholders invest in the company at a lower risk than debenture holders.
- D. Ordinary shareholders have voting rights in annual general meetings while debenture holders do not.

2010/CE/II/23

Which one of the following statements about the ordinary shareholders of a limited company is correct?

- A. They are the creditors of the company.
- B. They have voting rights in the Board of Directors' meetings.
- C. They receive dividends at a rate that is not fixed.
- D. They receive dividends at a higher rate than the preference shareholders.

2014/DSE/II/07

A public limited company plans to issue new bonds for expansion. For the existing shareholders, which of the following is an advantage of issuing bonds instead of shares?

- A. The accounts of the company need not be disclosed to the public.
- B. They have priority in getting back their capital if the company liquidates.
- C. The interest paid to the bondholders is lower than the dividend paid to the shareholders.
- D. Their power of control over the company will not be diluted.

2017/DSE/II/06

The government launched the Silver Bond for Hong Kong residents aged 65 or above. Bondholders will be paid interest at a rate linked to inflation in Hong Kong, subject to a minimum rate of 2% per year. Bondholders may sell their bonds at original price to the government before maturity.

Which of the following statements about the Silver Bond is/are correct?

- (1) The risk of holding the Silver Bond is lower than that of the shares of a listed company.
- (2) The return of the Silver Bond would increase during inflation while the return of the shares of a listed company would not.
- (3) The interest received by Silver Bond holders is higher than the dividend received by the shareholders of a listed company.

- A. (1) only
- B. (2) only
- C. (3) only
- D. (1), (2) and (3)

2019/DSE/II/07

New World China Land Limited (Stock Code: 0917) announced privatisation of the company and cancelled its listing status at the Hong Kong Stock Exchange.

Which of the following are the possible advantages of the above change?

- (1) The company can choose not to disclose its financial accounts to the public.
- (2) The company can reduce the risk of being taken over.
- (3) The company can enjoy a lower profits tax rate.

- A. (1) and (2) only
- B. (1) and (3) only
- C. (2) and (3) only
- D. (1), (2) and (3)

Some small investors prefer debentures to shares. Which of the following is a possible reason for that?

- A. The return of debentures is generally higher than that of shares.
- B. The price of shares may rise while that of debentures is fixed.
- C. Shareholders need to spend time managing the company but debenture holders do not.
- D. Companies have obligation to redeem debentures but they have no such obligation for shares.

Short & Structured Questions

1992/CE/1/3(c)(ii)

HSBC is a public limited company. Give **THREE** features of this type of business organization as distinct from a private limited company. (6 marks)

1996/CE/1/3(a)

Share prices of Vitasoy International Holdings Limited (維他奶國際集團有限公司) fell because some of its products were found to be contaminated and were destroyed.

Name the type of ownership of this firm. Explain **TWO** advantages of this type of ownership. (5 marks)

2001/CE/1/11(c)

Explain **TWO** advantages of a public limited company over a private limited company. (4 marks)

2002/CE/1/4

What is meant by limited liability? (2 marks)

2004/CE/1/4

State **THREE** features of a public limited company that distinguish it from a private limited company in Hong Kong. (3 marks)

2005/CE/1/3(a)

The following Hong Kong stock market information is extracted from a newspaper on a certain day.

Code	Telecommunication Company	Closing price of shares (\$)
0331	China Resources Peoples	0.290
0315	Smartone	8.700
0008	PCCW	4.925

Name the type of ownership of the above telecommunication companies. Give **TWO** advantages and **TWO** disadvantages to the owners of this type of ownership over sole proprietorship. (5 marks)

2009/CE/1/2

In 2007, the HKSAR Government bought a quantity of the shares in the Hong Kong Exchanges and Clearing Limited (HKEX) on the stock exchange. To what type of business ownership does the HKEX belong? List **TWO** features of this type of business ownership. (3 marks)

2012/DSE/II/12(b)

Chinachem Group is one of the property developers in Hong Kong. Unlike other major developers, Chinachem Group does not list its shares on the stock market. State **TWO** advantages and **TWO** disadvantages of being a private limited company instead of a listed company. (4 marks)

2014/DSE/11/10

Goodbaby International (Hong Kong stock code: 1086) is the largest manufacturer and supplier of infants' and children's products in China.

- (c) To what type of business ownership does Goodbaby International belong? (1 mark)
- (d) Explain the differences between partnership and the type of ownership in (c) in terms of
- (i) transfer of ownership.
- (ii) legal status. (4 marks)
- (e) Source 2 below is an extract from a newspaper article.

Addressing the potential threat brought about by the trends of the birth rate and old dependency ratio in China, government officials are considering relaxing the one-child policy in an effort to boost the birth rate.

#The policy restricts urban couples to only one child, while allowing additional children in several cases, including twins, rural couples, ethnic minorities, and couples who are both the only child in their respective families.

WITHOUT using a diagram, explain why the stock price of Goodbaby International increased after the information in Source 2 was published in newspapers. (4 marks)

2015/DSE/11/11(a)

McDonald's is a private limited company in Hong Kong. State **ONE** advantage and **ONE** disadvantage of forming a private limited company over forming a public limited company. (2 marks)

2016/DSE/11/2(a)

Sure-Star Education Group is a tutorial centre for secondary school students. The Group can issue shares and bonds to the general public to raise capital.

Name the type of business ownership of the Group. (1 mark)

2017/DSE/11/10(a)

MTR Corporation Limited (stock code: 66) provides railway services in Hong Kong.

MTR is a listed company. State **TWO** differences between such an ownership and a private limited company. (2 marks)

1994/CE/1/4

Compare the return of an ordinary shareholder of a bank with that of a time deposit holder. (6 marks)

1999/CE/1/4

In order to raise capital for expansion, a limited company is considering whether to issue new shares or debentures. From the viewpoint of the company, give **ONE** advantage and **ONE** disadvantage of issuing shares over debentures. (4 marks)

2001/CE/1/10(c)(ii)

State **TWO** advantages to Bank A of issuing shares over debentures for raising capital. (2 marks)

2012/DSE/11/10(a)(ii)

Mr. Chan considers investing the \$6000 either in shares or bonds issued by a listed company. Explain with **TWO** reasons why bonds could be a better choice than shares for Mr. Chan. (4 marks)

MARKING SCHEME

1990/CE/11/07 A	1999/CE/11/22 A	2010/CE/11/22 B (78%)	1997/CE/11/18 A	2009/CE/11/20 D (29%)
1991/CE/11/16 C	2000/CE/11/21 D	2012/DSE/11/09 B (39%)	1998/CE/11/18 B	2009/CE/11/22 D (61%)
1993/CE/11/10 D	2001/CE/11/18 B	2015/DSE/11/07 B (74%)	2002/CE/11/17 D (59%)	2010/CE/11/23 C (55%)
1993/CE/11/13 B	2002/CE/11/21 C (82%)	1990/CE/11/14 D	2002/CE/11/18 C (76%)	2014/DSE/11/07 D (71%)
1994/CE/11/24 B	2003/CE/11/19 C (60%)	1992/CE/11/18 C	2003/CE/11/22 D (73%)	2017/DSE/11/06 A (84%)
1994/CE/11/25 A	2005/CE/11/20 A (67%)	1993/CE/11/03 D	2004/CE/11/23 A (65%)	2019/DSE/11/07 A
1995/CE/11/24 B	2006/CE/11/20 A (41%)	1993/CE/11/07 B	2005/CE/11/21 D (74%)	2020/DSE/11/4 D
1995/CE/11/25 C	2007/CE/11/22 A (29%)	1993/CE/11/19 C	2006/CE/11/22 B (51%)	
1996/CE/11/57 A	2008/CE/11/20 B (75%)	1996/CE/11/20 A	2007/CE/11/21 A (64%)	
1997/CE/11/16 C	2009/CE/11/23 D (70%)	1996/CE/11/21 D	2008/CE/11/21 D (69%)	

Note: Figures in brackets indicate the percentages of candidates choosing the correct answers.

1992/CE/1/3(c)(ii)

- shares are freely transferable
 - no upper limit on the number of shareholders
 - financial accounts needed to be disclosed to the public
 - can apply for listing in the stock market
 - can raise fund from the public by issuing debentures
- [Mark the **FIRST THREE** points only.]

(2@, max: 6)

1996/CE/1/3(a)

Public limited company

(1)

Advantages:

- limited liability: loss of an owner of the firm is confined to his investment in the firm / lower risk in investment
 - legal entity: the firm can act as a legal person to make contracts, to own properties and be sued. / profit or loss belongs to the firm, not the owners.
 - Wider source of capital: can issue shares to the public.
 - Easy transfer of shares: an investor can convert his shares into cash with ease.
 - Professionals to run the business (separation of ownership and management and economies of scale)
 - Lasting continuity: the firm's existence not affected by any investor's death withdrawal, etc.
- [Mark the **FIRST TWO** points only.]

(2@, max: 4)

2001/CE/I/11(c)
- wider source of capital because capital can be raised from the public
- shares are freely transferable, approval of the Board of Directors is not required
- wider scope of specialization
[Mark the **FIRST TWO** points only.]

(2@, max: 4)

2002/CE/I/4
The liability of an owner of a firm is confined to the amount of his investment in the firm.

(2)

2004/CE/I/4
- no upper limit of the number of shareholders
- free transfer of shares
- wider source of capital / can invite the public to be shareholders
- financial accounts are open to the public
[Remark: Mark the **FIRST THREE** points only.]

(1@, max: 3)

2005/CE/I/3(a)
Public limited company.

(1)

Advantages:
- wider source of capital
- limited liability
- legal entity
- shares freely transferable
- continuity of business
[Mark the **FIRST TWO** points only.]

(1@, max: 2)

Disadvantages:
- financial accounts disclosed to the public
- higher profits tax rate
- higher risk of being taken over
- complicated set-up procedure
[Mark the **FIRST TWO** points only.]

(1@, max: 2)

2009/CE/I/2
Public limited company.

(1)

- independent legal status
- limited liability
- separation of ownership and management
- lasting continuity
- shares are freely transferrable
- issue shares to the public
- no upper limit on the number of shareholders
- required by law to disclose its financial status
[Mark the **FIRST TWO** points only.]

(2@, max: 4)

2012/DSE/II/12(b)
Advantages:
- tighter control of ownership / more difficult to be taken over
- no need to disclose the accounting information to public

(1)
(1)

Disadvantages:
- cannot issue shares to general public to raise capital
- difficult to transfer its ownership

(1)
(1)

2014/DSE/II/10
(c) Public limited company / listed company

(1)

(d) (i) In a partnership, any given owner cannot transfer his/her shares of ownership without the consent of other partners while in a public limited company, the shares are freely transferable. (2)

(ii) A partnership does not have independent legal status while a public limited company has an independent legal status. (2)

(e) People expected the birth rate to rise, resulting in an expected increase in future demand for the baby products. (1)
So Goodbaby International was expected to earn bigger profits and to distribute more dividends to its shareholders in the future. (2)
The expected increase in future dividends would raise the demand for the company's shares and thus its stock price. (1)

2015/DSE/II/11(a)
Advantage:
- lower risk of being taken over
- no need to disclose accounting information to the public

(1@, max: 1)

Disadvantage:
- owners cannot freely transfer their stocks
- the firm cannot raise capital by issuing stocks to the general public
[Mark the **FIRST** point only.]

(1@, max: 1)

2016/DSE/II/2(a)
Public limited company / listed company.

(1)

2017/DSE/II/10(a)
- Shares of a listed company are freely transferrable while shares of a private limited company are not.
- A listed company is required to disclose its accounting information to the public while a private limited company is not.
- A listed company can issue shares and bonds to the general public while a private limited company cannot. (1@, max: 2)
[Mark the **FIRST TWO** points only.]

1994/CE/I/4

	Time deposit holder	Ordinary shareholder	
Name of return:	interest	dividends	(2)
Rate of return:	fixed rate	variable	(2)
Whether the return depends on the bank's business performance:	no	yes	(2)

1999/CE/I/4
Advantage:
- no interest burden / no redemption obligation

(2)

Disadvantage:
- easier to be taken over

(2)

2001/CE/I/10(c)(ii)
- no interest burden
- no redemption obligation

(1)
(1)

2012/DSE/II/10(a)(ii)
He can get interest return even if the company does not make any profit that year.
Higher priority of getting paid than shareholders if the company is liquidated.

(2)
(2)

4.4 COMPARING DIFFERENT FORMS OF OWNERSHIP

Multiple Choice Questions

1995/CE/II/23

Fanny and Estella are the only owners of a firm. They must obtain the other's consent before they can transfer their ownership to other people. Besides, their liability to the firm is confined to their individual investment in the firm. Based on this information, the firm is a

- A. (out of syllabus)
- B. general partnership.
- C. private limited company.
- D. public limited company.

1996/CE/II/17

Which of the following are the advantages of turning a sole-proprietorship into a private limited company?

- (1) greater flexibility in decision-making
- (2) wider sources of capital
- (3) higher incentive to work
- (4) limited liability

- A. (1) and (2) only
- B. (1) and (3) only
- C. (2) and (4) only
- D. (3) and (4) only

1997/CE/II/19

Refer to the following information concerning Firm A and Firm B:

	Firm A	Firm B
Number of owners	6	7
Transfer of ownership	need the consent of other owners	need the consent of other owners
Legal status of the firm	legal entity	not a legal entity

The type of ownership of Firm A and Firm B is _____ and _____ respectively.

- A. public limited company private limited company
- B. private limited company partnership
- C. partnership private limited company
- D. public limited company partnership

1997/CE/II/58

Mr. Wai solely owns a restaurant in Tai Po and his wife runs the business for him. As compared to a public limited company, the type of ownership of the restaurant has the following advantages **EXCEPT**

- A. making prompt decision on management.
- B. paying profits tax at a lower tax rate.
- C. separation of ownership and management.
- D. not having to disclose the financial status to the public.

1998/CE/II/20

Study the following card issued by the ABC Cake Shop.

ABC Cake Shop promises to give the holder of this card on demand ONE DOZEN ASSORTED CAKES

The cake shop claims that it will keep the promise forever.

Now suppose the cake shop liquidates and cannot repay its debts to the cardholders. By law, the cake shop owner(s) need not keep the promise mentioned above it is a

- A. sole proprietorship.
- B. general partnership.
- C. (out of syllabus)
- D. limited company.

2002/CE/II/19

Amy is an owner of a firm. Her liability to the firm is confined to her investment in the firm and she can transfer her ownership to anyone else without the consent of other owners.

Based on the above information, the firm is a

- A. general partnership.
- B. (out of syllabus)
- C. private limited company.
- D. public limited company.

2005/CE/II/23

Study the following information about firm A and firm B.

	Firm A	Firm B
Number of owners	2	12
Transfer of ownership	freely transferable	needs the consent of other owners
Liability	limited	unlimited

According to the above information, Firm A is a _____ and Firm B is a _____.

- A. public limited company private limited company
- B. private limited company partnership
- C. partnership private limited company
- D. public limited company partnership

2006/CE/II/21

If the owners of a firm have the right to sue their firm but they cannot transfer their ownership freely without the consent of other owners, the firm is a

- A. general partnership.
- B. (out of syllabus)
- C. private limited company.
- D. public limited company.

2007/CE/II/20

Which of the following is a possible reason for turning a partnership into a private limited company?

- A. The owners will make more profit
- B. The owners will enjoy limited liability.
- C. It will ensure the financial privacy of the firm.
- D. Ownership of the firm can be transferred without the consent of other owners

2008/CE/II/19

	Firm A	Firm B
Number of owners	3	12
Transfer of ownership	Needs the consent of other owners	Needs the consent of other owners
Legal status	Legal entity	Not a legal entity

According to the above information, which of the following descriptions of Firm A and Firm B in Hong Kong is correct?

- A. All owners of Firm A are legally bound by other owners' business decisions while those of Firm B are not.
- B. Firm A has to disclose its financial statement to the public while Firm B need not.
- C. Firm A is subject to a higher profits tax rate than Firm B.
- D. Firm A has a higher risk of being taken over by other firms than Firm B.

2012/DSE/II/08

	Firm A	Firm B
Number of owners	2	10
Transfer of ownership	Needs the consent of other owners	Needs the consent of other owners
Continuity	Continues to exist when one of the owners goes bankrupt.	Will be dissolved when one of the owners goes bankrupt.

According to the above table, which of the following descriptions of Firm A and Firm B is correct?

- A. Firm A is at a greater risk of being taken over by another firm than Firm B.
- B. Firm A is a legal entity while Firm B is not.
- C. Both firms are subject to the same profits tax rate.
- D. Firm A is required to disclose its financial status to the public while Firm B is not.

2017/DSE/II/05

Alan and his partners turned their partnership into a private limited company. After the change, the firm will

- A. have more capital for development.
- B. have a lower average production cost.
- C. enjoy a lower profits tax rate.
- D. have a separate legal entity.

2018/DSE/II/07

	Firm X	Firm Y
Number of owners	2	10
Transfer of ownership	the consent of other owners required	the consent of other owners NOT required
Disclosure of financial account to public	NOT required	required

According to the above table, which of the following descriptions of Firm X and Firm Y is correct?

- A. Firm Y earns a higher profit than Firm X.
- B. Firm Y raises more capital than Firm X.
- C. Owners of both firms enjoy limited liability.
- D. Firm Y is a legal entity while Firm X may not be.

Short & Structured Questions

1999/CE/II/10(b)

The government encourages people to start their own business. Suggest **TWO** advantages and **TWO** disadvantages to the owners of businesses in running a partnership over a private limited company. (4 marks)

2003/CE/II/3

John is running a firm with Peter. Since Peter has not been running the firm properly, both of them have had to sell their personal property to cover the firm's debts.

To what type of business ownership does the above firm belong? List **TWO** features of this type of business ownership. (3 marks)

2008/CE/II/4

A public limited company has limited liability while a partnership has not.

(a) What is meant by limited liability? (2 marks)

(b) Explain the difference between the above two types of ownership in terms of

- (i) transfer of ownership.
- (ii) source of raising capital. (4 marks)

2020/DSE/II/5

If a public limited company in Hong Kong gets listed on the stock exchange,

- A. it will face a higher profits tax rate.
- B. it can no longer keep its accounting information confidential.
- C. its shareholders will enjoy higher liquidity of their assets.
- D. it will enjoy economies of scale.

MARKING SCHEME

1995/CE/II/23 C	1997/CE/II/58 C	2005/CE/II/23 D (65%)	2008/CE/II/19 C (57%)	2018/DSE/II/07 D (69%)
1996/CE/II/17 C	1998/CE/II/20 D	2006/CE/II/21 C (58%)	2012/DSE/II/08 B (77%)	2020/DSE/II/5 C
1997/CE/II/19 B	2002/CE/II/19 D (59%)	2007/CE/II/20 B (77%)	2017/DSE/II/05 D (88%)	

Note: Figures in brackets indicate the percentages of candidates choosing the correct answers.

1999/CE/II/10(b)

Advantages:

- lower tax rate (1)
 - easier to set up / close down (1)
 - less legal constraints in business operation, so save cost in this aspect (1)
- [Mark the **FIRST TWO** points only.]

Disadvantages:

- unlimited liability (1)
 - narrower scope of raising capital (1)
 - lack of continuity (1)
- [Mark the **FIRST TWO** points only.]

2003/CE/II/3

General partnership.

- number of partners ranges from 2 to 20 (1)
 - unlimited liability / each partner is fully liable for the firm's debt
 - all partners are bound by other partners' business decisions
 - difficult to admit or withdraw partners
 - easy to set up and dissolve (1@, max: 2)
- [Mark the **FIRST TWO** points only.]

2008/CE/II/4

(a) The liability of an owner of the firm is confined to the amount of his investment in the firm. (2)

(b)

	Public limited company	Partnership	
(i) Transfer of ownership	Does not need the consent of other shareholders	Need the consent of other partners	(2)
(ii) Source of capital	Can issue shares and debentures	Cannot issue shares and debentures / borrowing from friends, etc	(2)

4.5 EXPANSION OF FIRMS

Multiple Choice Questions

1990/CE/II/18

Which of the following is an example of lateral integration?

- A. a flour mill combines with a bakery
- B. a jeans factory combines with a swimwear factory
- C. a jewelry manufacturer combines with a noodle factory
- D. a furniture factory combines with a lumbering plant

1991/CE/II/21

Cathay Pacific Airways Ltd. took over Hong Kong Dragon Airlines Ltd. (港龍航空公司). This is an example of

- A. horizontal integration
- B. lateral integration
- C. forward vertical integration
- D. backward vertical integration

1993/CE/II/23

A movie-producing firm acquired a number of theatres to present its own films and films produced by other firms. What are the advantages of this type of integration to the firm?

- (1) The firm can enjoy economies of scale.
- (2) The firm can reduce its risks by diversifying its investment.
- (3) It is easier for the firm to obtain contracts with movie stars.

- A. (1) and (2) only
- B. (1) and (3) only
- C. (2) and (3) only
- D. (1), (2) and (3)

1993/CE/II/23

Which of the following is an example of lateral expansion of a firm?

- A. A telephone company combines with a telegram company.
- B. A restaurant combines with a supermarket.
- C. A hospital sets up a school to train student nurses.
- D. A furniture company combines with another furniture company.

1994/CE/II/27

A travel agent takes over a real estate firm. What kind of integration is this?

- A. conglomerate integration
- B. lateral integration
- C. vertical integration
- D. horizontal integration

1994/CE/II/28

In Hong Kong, when a commercial bank takes over another commercial bank,

- A. it has greater influence on deposit interest rates.
- B. it is able to diversify risk in its business.
- C. its market share is enlarged.
- D. it will suffer from diseconomies of scale.

1995/CE/II/27

A publisher takes over a bookstore. To the publisher, this is a _____ integration.

- A. conglomerate
- B. forward
- C. backward
- D. lateral

1995/CE/II/28

Which of the following is the greatest benefit from conglomerate integration?

- A. diversification of product
- B. economies of scale
- C. ensuring the markets for its output
- D. larger market share

1997/CE/II/20

When a cake shop takes over a coffee shop, which of the following are correct?

- (1) This can provide an outlet for its products.
- (2) The resources can be better utilized.
- (3) The risk of the business is reduced through diversification.
- (4) The profit will increase.

- A. (1), (2) and (3) only
- B. (1), (2) and (4) only
- C. (1), (3) and (4) only
- D. (2), (3) and (4) only

1998/CE/II/19

A famous singer expands his show business by producing stationery with his picture on it. This type of expansion is

- A. horizontal.
- B. forward.
- C. backward.
- D. conglomerate.

1998/CE/II/21

When a shampoo manufacturer introduces a new product – shampoo for children, it aims at

- (1) diversifying its market.
- (2) gaining the economies of scale in marketing.
- (3) ensuring a market outlet for its products.

- A. (1) and (2) only
- B. (1) and (3) only
- C. (2) and (3) only
- D. (1), (2) and (3)

2000/CE/II/24

A mobile phone company joins hands with a commercial bank. A customer of the bank can handle matters concerning his accounts by using the mobile phone produced by the mobile phone company. Which of the following is least likely a motive of the mobile phone company in this joint venture?

- A. To ensure steady supply of raw materials
- B. To benefit from more efficient use of resources.
- C. To benefit from economies of scale.
- D. To promote goodwill.

2001/CE/II/23

A bus company expands its business and starts to provide ferry services to the outlying islands. This enables the bus company to

- A. diversify the risk of its business.
- B. diversify markets for its product.
- C. enjoy a larger market share.
- D. enjoy technical economies of scale.

2002/CE/II/22

Mrs Chan, a large supplier of frozen beef, opens a chain of beef steak houses. To this supplier,

- (1) the expansion is a vertical forward expansion.
- (2) the risk of running a loss for her whole business will be lower.
- (3) this can ensure a steady market outlet for her frozen beef.

- A. (1) and (2) only
- B. (1) and (3) only
- C. (2) and (3) only
- D. (1), (2) and (3)

Refer to the following report to answer Questions 23 and 24.

Towngas Avenue is the largest customer service centre for Towngas. Towngas Avenue also sells tableware and glassware and operates an in-store cafe.

2003/CE/II/23

The extension of the business of Towngas to Towngas Avenue is an example of

- A. horizontal expansion.
- B. vertical backward expansion.
- C. vertical forward expansion.
- D. conglomerate expansion.

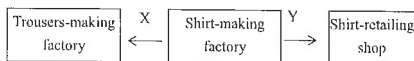
2003/CE/II/24

To Towngas, the extension of the business of Towngas to Towngas Avenue has the advantage of

- A. enjoying technical economies of scale.
- B. ensuring a steady supply of raw materials.
- C. ensuring adequate market outlets.
- D. diversifying production and spreading risk.

2004/CE/II/24

A shirt-making factory has expanded its business as follows:



To the shirt-making factory, the types of expansion shown by X and Y are _____ expansion and _____ expansion respectively.

- A. backward lateral
- B. lateral lateral
- C. backward forward
- D. lateral forward

2005/CE/II/24

Which method of integration can be used by firms to ensure the supply of raw materials?

- A. backward integration
- B. forward integration
- C. conglomerate integration
- D. horizontal integration

2006/CE/II/23

When an international airline company takes over a local airline company, the former has the advantage of

- A. ensuring a steady supply of raw materials.
- B. ensuring a better quality of its service.
- C. enjoying management economies of scale.
- D. avoiding the existence of diseconomies of scale.

The MTR Corporation launched the Octopus Card. It is a smart card system facilitating transactions of small amounts. Answer questions 23 and 24 below:

2007/CE/II/23

To the MTR Corporation, this type of expansion is

- A. horizontal
- B. forward
- C. backward
- D. conglomerate

2007/CE/II/24

Such a type of expansion has the advantage of

- A. technical economies of scale.
- B. increasing the market share of the business.
- C. increasing the profit of the company.
- D. diversifying the risk of business.

A catering company owns many restaurants selling different Chinese foods.

Recently, it has opened a new bakery. Which of the following descriptions in questions 22 and 23 concerning the expansion of the catering company are correct?

2008/CE/II/22

The expansion is an example of

- A. borrowing from a deposit-taking company
- B. issuing debentures
- C. issuing preference shares
- D. issuing ordinary shares

2008/CE/II/23

The expansion enables the catering company to

- A. spread the business risk by diversifying the product.
- B. have a greater influence on the market price.
- C. raise the productivity of its workers.
- D. have a more steady supply of raw materials.

2009/CE/II/24

The integration of the MTR Corporation Limited (MTR) and the Kowloon-Canton Railway Corporation (KCR) is an example of _____ with the advantage of _____.

- A. horizontal integration ensuring a steady supply of raw materials for production
- B. vertical integration lowering the production cost
- C. lateral integration economies of scale
- D. conglomerate integration making more efficient use of resources

2010/CE/II/24

When a bakery takes over a flour producing factory, the former has the advantage of

- A. ensuring a market outlet of its products.
- B. enlarging the market share.
- C. ensuring a steady supply of raw materials.
- D. diversifying the market.

2013/DSE/I/08

A firm can ensure a steady supply of raw materials by engaging in _____ while it can increase its market share by engaging in _____.

- A. backward integration ... horizontal integration
- B. backward integration ... lateral integration
- C. forward integration ... horizontal integration
- D. forward integration ... lateral integration

2015/DSE/I/08

759 Store, a local retailer of imported snacks, expands its business to sell cosmetics and skincare products. Which of the following is LEAST likely motive behind the expansion?

- A. To reduce competition
- B. To enjoy economies of scale
- C. To expand its brand name to other products
- D. To spread risk by business diversification

2016/DSE/1/11

Hong Kong Television Network Limited (HKTV) has launched an online shopping platform "HKTV Mall". This expansion

- (1) helps spread business risk.
 - (2) ensures a higher profit for the company.
 - (3) extends its brand name to other markets.
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)

2017/DSE/1/09

Giordano International Limited is a retailer of casual wear. It has launched the Giordano Ladies, which provides luxury clothes and suits for ladies. It is an example of _____ expansion.

- A. horizontal
B. vertical
C. lateral
D. conglomerate

2018/DSE/1/08

Toridoll Holdings Corporation, a leading company in the restaurant industry in Japan, acquired a Hong Kong noodle chain Tam Chai Yunnan Noodles (譚仔雲南米線). Which of the following is the **LEAST** likely motive behind the integration?

- A. to secure the supply of factor inputs
B. to spread risk through product diversification
C. to enjoy economies of scale
D. to expand its business to other markets

Short & Structured Questions

1990/CE/1/4(a)(i)

Lei Sun is a garment manufacturing firm wholly owned by Mr Lee. It will be combined with a garment retailing group to form a public limited company. Explain **TWO** advantages to Lei Sun of combining with a retailing group. (4 marks)

1991/CE/1/5(b)(iv)

If Bank B takes over Bank A, what type of integration is this? Suggest **TWO** advantages to Bank B of doing this. (7 marks)

1992/CE/1/4(a)

Company A, which owned several factories in Tsuen Wan, was taken over by a local land developer, Company B. Company B decided to redevelop some of the factories into hotels and shopping centres.

(i) What type of integration is this? (2 marks)

(ii) Explain **TWO** advantages of this integration to Company B. (6 marks)

1994/CE/1/9(a)

A truck manufacturer in Japan expands his production to include private cars. Identify this type of expansion and give **TWO** motives for such an expansion. (5 marks)

2019/DSE/1/09

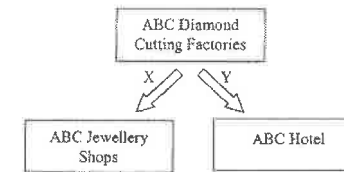
A Hong Kong travel company offers package tours to Japan. It invested in building a hotel, which provides accommodation services to its tour members visiting Japan.

Which of the following is most likely the motive behind the expansion?

- A. to increase the market share
B. to secure the supply of factor inputs
C. to ensure a market outlet of its services
D. to reduce competition

2020/DSE/1/18

ABC Diamond Cutting Factories expand its business as follows:



To ABC Diamond Cutting Factories, the types of expansion shown by X and Y are _____ expansion and _____ expansion respectively.

- A. backward conglomerate
B. backward lateral
C. forward conglomerate
D. forward lateral

1996/CE/1/11(b)

Suppose a newspaper publisher starts to publish a magazine which is to be sold separately.

- (i) What type of expansion is it? Explain your answer. (3 marks)
- (ii) State **TWO** motives for such an expansion. (2 marks)

1998/CE/1/3

A television broadcasting company takes over a film production company. Give **TWO** possible economic motives of the takeover. (4 marks)

1999/CE/1/11(b)

A taxi company merged with a restaurant. Identify the type of integration and explain **TWO** possible motives for this type of integration. (5 marks)

2002/CE/1/11(d)

The tutorial school also publishes textbooks for sale to the public. Give **FOUR** possible motives of such an expansion. (4 marks)

2003/CE/1/9(b)(ii)

Firm A is a local manufacturer in Hong Kong producing goods for export only. Suppose Firm A establishes retail shops to sell its products in Hong Kong. Explain what type of expansion this is and suggest **TWO** possible motives for such a type of expansion. (6 marks)

2006/CE/1/3

When it started, the Walt Disney Company produced cartoon movies only. Later it expanded its business to owning and operating Disneyland theme parks and hotels. Explain what type of expansion this is and state **TWO** possible motives for such a type of expansion. (4 marks)

2010/CE/1/10(b)

Ocean Park Hong Kong is undergoing a major redevelopment plan. In addition, Ocean Park is planning three themed hotels (the Spa Hotel, Ocean Hotel, and Fisherman's Wharf Hotel) in the area for an expected increase in visitors. Name this type of expansion and explain your answer. (2 marks)

2012/DSE/II/3

A telecommunication service provider starts a credit company which offers loans to the public.

- (a) Explain what type of expansion this is. (2 marks)
- (b) List **THREE** possible motives for the above expansion. (3 marks)

2014/DSE/II/4

Tai Fai Lok Group operates a chain restaurant providing Chinese food.

- (a) Tai Fai Lok Group has recently started Fai Lok Institute, which provides professional training for chefs and managers for Chinese restaurants. To what type of expansion does this belong? Explain your answer. (2 marks)
- (b) Explain **TWO** advantages of such an expansion. (4 marks)

2015/DSE/II/9(b)

McDonald's is one of the major fast food chains in Hong Kong. McDonald's has expanded its business by operating McCafé, which sells premium coffee like other coffeehouses such as Starbucks. To which type of expansion does this belong? Explain. (2 marks)

2019/DSE/II/9

A beauty queen in Hong Kong, Miss Amy Au, is famous for demonstrating the use of cosmetic products with short videos on social media websites. She also sells Japanese cosmetic products on her website.

- (a) Are the short videos on social media websites public goods or private goods? Explain. (3 marks)
- (b) Apart from Japanese cosmetic products, she starts to sell Korean cosmetic products on her website. To what type of expansion does this belong? Give **TWO** possible reasons for this type of expansion. (3 marks)

2020/DSE/II/2

A chain restaurant providing Chinese cuisine set up a cake shop.

- (a) Explain which type of expansion this was.
- (b) List **TWO** possible motives for the above expansion.

2021/DSE/II/3

In 1992, Cathay Pacific Airways acquired an air-catering company which was renamed as Cathay Pacific Catering Services (H.K.) Limited (CPCS). CPCS provided around thirty million meals for various airlines in 2019.

From the viewpoint of Cathay Pacific Airways, name the type of the above integration and give **TWO** motives for this type of integration. (3 marks)

MARKING SCHEME

1990/CE/II/18 B	1995/CE/II/27 B	2001/CE/II/23 A	2006/CE/II/23 C (75%)	2010/CE/II/24 C (96%)
1991/CE/II/21 A	1995/CE/II/28 A	2002/CE/II/22 B (33%)	2007/CE/II/23 D (73%)	2013/DSE/II/08 A (82%)
1993/CE/II/23 D	1997/CE/II/20 A	2003/CE/II/23 D (74%)	2007/CE/II/24 D (52%)	2015/DSE/II/08 A (88%)
1993/CE/II/23 A	1998/CE/II/19 D	2003/CE/II/24 D (75%)	2008/CE/II/22 A (72%)	2016/DSE/II/11 B (72%)
1994/CE/II/27 A	1998/CE/II/21 A	2004/CE/II/24 D (77%)	2008/CE/II/23 A (92%)	2017/DSE/II/09 C (57%)
1994/CE/II/28 C	2000/CE/II/24 A	2005/CE/II/24 A (80%)	2009/CE/II/24 C (69%)	2018/DSE/II/08 A (83%)

Note: Figures in brackets indicate the percentages of candidates choosing the correct answers.

2019/DSE/II/09
B

2020/DSE/II/18
C

1990/CE/II/4(a)(i)

- to secure outlet of product
- easier to obtain information on consumers' preferences
- to enjoy economies of scale
- to build up brand name

[Mark the first 2 points only. Mere listing of points without elaboration - max. 1 mark.]

(2@, max: 4)

1991/CE/II/5(b)(iv)

- Horizontal integration
- Explanation of two advantages:
- economies of scale
 - greater market power
 - reduce duplication of facilities

[Mark the **FIRST TWO** points only.]

(1)

(3@, max: 6)

1992/CE/II/4(a)

(i) Conglomerate integration

- (ii)
- more efficient use of the land site
 - diversification of production/spread risk
 - promotion of goodwill
 - economy of scale with reasonable explanation

(3@, max: 6)

[Mere listing of points without elaboration – max. 2 marks. Mark the **FIRST TWO** points only.]

1994/CE/II/9(a)

Lateral expansion

Motives:

- diversification of product / spread risk
- make use of brand name
- economies of scale

[Mark the **FIRST TWO** points only.]

(1)

(2@, max: 4)

1996/CE/II/11(b)

(i) Lateral expansion, because

newspapers and magazines are related products but not necessarily competing with each other.

(1)

(2)

(ii) - better utilization of resources

- benefits derived from brand name
- diversification of investment / spread risk
- economies of scale

[Mark the **FIRST TWO** points only.]

(1@, max: 2)

1998/CE/II/3

- guarantee stable source of films to be shown on the television
- the television company is able to direct or influence the kind of films to be shot by the film company
- economies of scale illustrated by one appropriate example, e.g. the expertise
- to diversify the television company's risk of investment

[Mark the **FIRST TWO** points only.]

(2@, max: 4)

1999/CE/II/11(b)

Conglomerate integration.

Elaboration of two of the following:

- diversification of products / spread risk
- financial economy of scale
- managerial economy of scale
- marketing economy of scale
- any other relevant point (except technical economy of scale)

[Mark the **FIRST TWO** points only.]

(2@, max: 4)

2002/CE/II/11(d)

- to make use of brand name
- to diversify the business
- to promote its goodwill
- to better utilize its resources / to enjoy economies of scale

(1)

(1)

(1)

(1)

2003/CE/II/9(b)(ii)

Vertical forward expansion because

the manufacturer expands to the next stage of production

(1)

(1)

- obtaining market information more easily

- ensuring market outlets for its products

- economies of scale, e.g. financial economies of scale

- promote goodwill / make use of brandname

[Mark the **FIRST TWO** points only.]

(2@, max: 4)

- 2006/CE/I/3
Conglomerate expansion because
movie production and hotel business are two different lines of production. (1)
(1)
OR
Lateral expansion because (1)
the products are related but not competitive. (1)
- Possible motives of conglomerate expansion or lateral expansion:
- product diversification to spread risk
- making use of brand name to sell another product / promoting goodwill
- more flexible use of resources
- to benefit from economies of scale (1@, max: 2)
[Mark the **FIRST TWO** points only.]
- 2010/CE/I/10(b)
Lateral expansion, because (1)
it expands to include a related but not competitive business. (1)
[Remark: No mark will be awarded to this part if the explanation contradicts with the type of expansion.]
- 2012/DSE/II/3
(a) Conglomerate expansion, because (1)
the firm has expanded into unrelated industries. (1)
- (b) Possible motives:
- to have product / income diversification so as to spread risk
- to make use of its brand name of one product in other products
- to use resources more efficiently as the two companies can share some of their resources
- to enjoy economies of scale (e.g. lower average cost of advertising as the total cost can be spread over a larger quantity of output.) (1@, max: 3)
[Mark the **FIRST THREE** points only.]
- 2014/DSE/II/4
(a) Vertical backward expansion, because (1)
by starting Fai Lok Institute, Tai Fai Lok Group has expanded its operation to the previous stage of production to control directly the supply of labour inputs (chefs and managers) to its original (food) business. (1)
- (b) Advantages
- more steady supply of factor inputs such as chefs and managers
- better use of the brand name
- program can be tailor-made for those graduates from the Institute who are hired to work in the Group's restaurant, so as to shorten their training time. (2@, max: 4)
[Mark the **FIRST TWO** points only.]
- 2015/DSE/II/9(b)
Lateral expansion, because (1)
fast food and coffee are related but not directly competitive products. (1)
- 2019/DSE/II/9
(a) Public good. It is because the videos are non-rivalrous in consumption as people can concurrently watch the video without affecting one another. (3)
- (b) Horizontal expansion. (1)
Reasons:
- enlarge the market share
- enjoy economies of scale
- make use of the brand name
- any other relevant point } @1
[Mark the **FIRST TWO** points only.] max: 2

2020/DSE/II/2

2 a) Lateral. The integration involve in related industry but not directly competing (2 marks)

- b. Economies of scale.
Better use of resources
Diversify of risk
Brand name effect
any two of the above. (2 marks)

2021/DSE/II/3

- Vertical (backward) expansion
Motives:
- Enjoy economies of scale.
- Reduce business risk through product diversification.
- Secure the source of factor of productions for its airplane services.
- Any other relevant point
[Mark the **FIRST TWO** points only.]