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### 1. Executive summary

The VISION of a company is important in formulating its business strategy and action. For Lukfook Holdings (International) Limited (Refer to as "Lukfook" for the rest of the report), the motto repeated by the chairman in its annual reports, "Brand of Hong Kong, Sparkling the World" states clearly that the vision of the company: the core business base of the company will be in Hong Kong while outward business expansion will be a continuous focus.

LukFook is one of the largest entities in Hong Kong's goldsmith/ jewellery industry (referred to as "Industry" for the rest of the report) and was listed on Main Board of the Stock Exchange of Hong Kong Limited with stock code "00590.HK". Though Lukfook is a relatively young company with less than 25 years, it is a company with active growth. The CURRENT STATE OF BUSINESS of Lukfook is very healthy, growing and in full expansion. This could be seen in the past 10 years' consecutive growth in revenue as well as rapid expansion of the network. It has heavy dependence on visitors from Mainland China. While the business results of Lukfook has been satisfactory, the current changes in government policy on the "Individual Visit Scheme" (refer to as "IVS" for the rest of the report) which limit and reduce visitors from Mainland China pose a real threat and problem to Lukfook due to its heavy reliance of income on this group of clients.

In terms of customer services and product quality, Lukfook is outstanding and has won numerous awards, and is active in supporting charity or environment-related projects.

The ANALYSIS PERFORMED consists of 2 major parts

- A financial analysis based on the 2013 and 2014 annual reports.
- A detailed SWOT analysis to cover all a wide range of external and internal factors and other non-financial factors.

The KEY FINDINGS and MAIN CONCLUSION based on the above analyses are very revealing. While the financial performance of Lukfook is strong and competitive, its heavy reliance on income from Mainland Chinese customers is a potential problem. It has to enlarge its client base in Hong Kong to achieve a better balance between the 2 groups of clients. Besides, its brand image doesn't seem to be strong, it has only limited brand recognition. Its marketing activities may be numerous but the results are not effective enough in this market with fierce competition. Major recommendations of the BUSINESS PLAN are focused around a few main areas:

- (1) Transforming and upgrading the brand image,
- (2) Reinforcing the current client base while expanding to a new level, especially to attract more clients from Hong Kong. It is desirable to obtain a better balance between customers from Mainland China and Hong Kong (currently 60% of the retail sales are clients from Mainland China). This will put Lukfook in a less exposed position in case of a sudden drop and or big control of customers from Mainland.
- (3) Upgrading marketing campaigns for more effective results
- (4) Developing more actively e-commerce

## **2. Introduction**

### **A. Background**

Lukfook has positive and growing business results for the past 10 consecutive years. Its revenue in 2014 has even attained at record high at (HKD 19,214,930,000) representing a 43.3% increase from 2013. Due to its heavy reliance on the visitors from Mainland China as a major source of income, any significant increase or decrease of this group of clients will have an important impact on the company performance. The recent change of the IVS policy in Hong Kong (to control the mainland visitors to Hong Kong) has rung an alarm to the company. It needs to prepare the company to avoid negative shock of business income.

### **B. Objectives**

There are 2 major objectives:

- Keeping the focus of its retail business in HK (representing 81.5% of revenue in 2013 and 84% in 2014) but enhance this network by stronger brand building, deeper market penetration, product diversifications and development of e-commerce
- Enlarging the HK-based clientele thus obtaining a better balance with the Mainland-China-based clientele in case of unfavourable IVS policy change to the company result.

### C. Scope of business proposal

The current study includes all major business proposals that help to achieve the above objectives in terms of brand image transformation, marketing campaigns and e-commerce development.

This study takes into consideration the retailing network expansion project in Hong Kong planned by Lukfook under a separate budget. In other words, the 10M HKD budget for the business plan excludes the retail network expansion costs (opening of new shops). E-commerce implementation costs are also excluded as they are under a separate IT budget.

### 3. Financial analysis

In this part, the Group's financial performance will be analysed in terms of profitability, asset utilization, short-term liquidity and long-term solvency. In order to reveal the financial competitiveness of the Group, the financial performance of Chow Tai Fook Jewellery Group, one of the major competitors in the market, is also quoted below.

#### A. Profitability

	Lukfook		Chow Tai Fook	
	2014	2013	2014	2013
Mark-up	28.1%	26.7%	37.6%	39.6%
Gross profit ratio	21.9%	21.1%	27.3%	28.4%
Net profit ratio	9.7%	9.3%	9.9%	9.6%
Return on capital employed	32.6%	25.1%	24.7%	21.9%
Return on assets	19.5%	16.5%	12.1%	13.1%
Return on equity	24.4%	19.3%	20.0%	17.2%

The MARK-UP of Lukfook was increased by 1.4% from 2013 to 2014. However, its mark-up is still significantly lower than that of Chow Tai Fook for both years. This difference may be due to a lower mark-up policy of Lukfook. It will also mean that, in case of need, Lukfook has room for increasing the profit margin more aggressively to enhance the revenue.

The GROSS PROFIT RATIO of Lukfook was stable for 2013 and 2014 and was 21.1% and 21.9% respectively. Lukfook's gross margin is lower than that of Chow Tai Fook, this may be explained by the lower mark-up of Lukfook.

However, when we compare the NET PROFIT RATIO of them, we see something interesting. Lukfook's net profit ratios are very similar to those of Chow Tai Fook. With lower gross profit ratios but similar net profit ratios, it can probably be deduced that Lukfook has a better control of expenses than Chow Tai Fook.

For the RETURN ON CAPITAL EMPLOYED, Lukfook has an increment of 7.5% from 2013 to 2014. The increment of Chow Tai Fook is much less important, at 2.8%. This ASSET UTILIZATION shows that, despite the smaller size of Lukfook, its management has better use of its capital with higher return from year to year.

For the RETURN ON EQUITY and RETURN ON ASSETS, Lukfook shows higher return as well as more important increase year- to- year compared to Chow Tai Fook. Lukfook's ratio were increased by 3% and 5.1% respectively while Chow Tai Fook -1% and 2.8%. These 2 ratios indicate that Lukfook has a better performance than Chow Tai Fook in generating profits from its long-term funds and assets.

## B. Asset utilization

	Lukfook		Chow Tai Fook	
	2014	2013	2014	2013
Inventory Turnover	2.65 times	2.25 times	1.61 times	1.44 times
Avg. inventory turnover period	138 days	162 days	227 days	253 days
Trade receivables turnover	13.3 times	9.98 times	25.0 times	16.2 times
Avg. trade receivables collection period	27.4 days	36.6 days	14.6 days	22.5 days
Trade payables turnover	41.5 times	26.4 times	96.4 times	112 times
Avg. trade payables repayment period	8.79 days	13.8 days	3.79 days	3.27 days
Total assets turnover	2.00 times	1.77 times	1.25 times	1.33 times

The INVENTORY TURNOVER of Lukfook rose from 2.25 times in 2013 to 2.65 times in 2014, which indicates the inventory was sold at a quicker rate. Compared to the inventory turnover of 1.61 times of Chow Tai Fook in 2014, it shows its ability to utilize its assets (i.e. selling its products) more efficiently than Chow Tai Fook, thus bringing in liquidity to the business more quickly.

The AVERAGE INVENTORY TURNOVER PERIOD indicates the same phenomenon. The period of Lukfook was reduced by near 30 days from 162 days in 2013, whereas the inventory turnover period of Chow Tai Fook was much higher at 253 and 227 days. The shorter the average inventory turnover period, the better the inventory control. Less cash is being tied up.

The TRADE RECEIVABLES TURNOVER of Lukfook has increased from 9.98 times in 2013 to 13.3 times in 2014 and its AVERAGE TRADE RECEIVABLES COLLECTION PERIOD reduced from 36.6 days in 2013 to 27.4 days in 2014. These ratios show the group's debt-collecting ability was improving. However, compared to Chow Tai Fook's (trade receivables turnover: 25 times; average trade receivables collection period: 14.6 days), the ratios show that Lukfook was more generous (may

be even too generous) to grant credit. There may be a lack of tight credit control and there could be higher risks of having bad debts compared to Chow Tai Fook.

The TRADE PAYABLES TURNOVER had significantly changed from 26.4 times in 2013 to 41.6 times in 2014, but both were much lower than those of Chow Tai Fook's turnover ratio(112 and 94.6 times). The AVERAGE TRADE PAYABLES REPAYMENT PERIOD of Lukfook was shortened from 13.8 to 8.79 days in 2014 but was still 5 and 10 days longer than the competitor Chow Tai Fook.

Both ratios indicate that Lukfook is repaying its trade payables more slowly than its competitor Chow Tai Fook. On the one hand, it could be interpreted positively, that Lukfook was able to negotiate better payment terms to its creditors, and therefore it could keep more liquidity on hand. On the other hand, Lukfook may be subject to more pressure in repayment if the creditors would like to tighten repayment duration or during economic recession.

For the TOTAL ASSET TURNOVER, Lukfook showed a better performance than Chow Tai Fook both in 2013 and 2014 (2 times and 1.77 times compared to 1.25 and 1.33 of Chow Tai Fook). This shows that Lukfook has high efficiency in managing and disposing of the group's assets.

### C. Short-term liquidity

	Lukfook		Chow Tai Fook	
	2014	2013	2014	2013
Cash conversion cycle	156 days	185 days	238 days	362 days
Current ratio	4.75:1	6.66:1	2.56:1	4.73:1
Quick ratio	1.29:1	1.72:1	0.67:1	1.48:1
Cash ratio	1.00 times	1.18 times	0.443 times	0.987 times

For both 2013 and 2014, Lukfook's CASH CONVERSION ABILITY was stronger than Chow Tai Fook, as shown by the shorter cash conversion cycle of Lukfook than Chow Tai Fook in both years. The increased YTY ratio also reveals that Lukfook kept improving its conversion speed. In other words, Lukfook's liquidity has become stronger across time and even stronger than its major competitor

Similarly, it performed better than Chow Tai Fook in terms of CURRENT RATIO, QUICK RATIO and CASH RATIO. Lukfook had a stronger ability to meet its current liabilities than Chow Tai Fook with its ratios nearly doubled those of Chow Tai Fook.

### D. Long-term solvency

	Lukfook		Chow Tai Fook	
	2014	2013	2014	2013
Gearing ratio	7.4%	not available	18.5%	not available

Debt to equity ratio	24.7%	16.9%	62.9%	28.4%
Time interest earned <sup>1</sup>	817 times	1507 times	42.1 times	22.5 times

For both 2013 and 2014, the GEARING RATIO and the DEBT TO EQUITY RATIO of Lukfook were significantly lower than those of Chow Tai Fook. It shows that Lukfook's has a much lower level of long term liability and also a lower need for borrowing. It shows its very strong financial position in terms of liquidity on the one hand (i.e. it does not have to borrow too much money to maintain its current state of business). On the other hand, it may show that Lukfook has not taken full potential advantage of a higher gearing for business expansion. This implies that if a need for extra funding arises one day for Lukfook, it has much room and flexibility to borrow while maintaining a healthy gearing ratio.

The TIME INTEREST EARNED (TIE) of Lukfook was enormously bigger than Chow Tai Fook's for both 2013 and 2014 (817 and 1507 times for Lukfook and 42.1 and 22.5 times for Chow Tai Fook). Explanation is similar to that given for the gearing ratio above. Lukfook has much less long-term liabilities than Chow Tai Fook and therefore much lower interest repayment liability. This shows that Lukfook has strong cash position, and therefore little pressure, to cover its interest repayments. Chow Tai Fook's interest repayment liability is much higher.

Note 1: The operating profit is taken as the numerator of the formula while the interest for bank borrowings is taken as the dominator.

#### **4. Strategic analysis**

##### **A. Financial situation of the Hong Kong retailing business**

	2014	2013
Net profit ratio	11.4%	9.80%
Return on assets	31.1%	26.0%
Asset turnover ratio	15.2	13.8

Lukfook's retailing business in Hong Kong has improving results for net profit, assets return and asset turnover from 2013 to 2014. It shows that business sales have become stronger and stronger with products sold at a quicker pace. Assets management is good thus bringing in also a 5% improvement on the return on assets.

Lukfook had recorded a high revenue for the Group in 2014 at the level of HKD19,214,930,000 representing a 43.3% growth from 2013. The Hong Kong retailing network continued to be the major sales driver for Lukfook. It contributed 62.2% of revenue in 2014 or HKD11,957,141,000 (and 65% for 2013, or HKD8,715,955,000).

For the Hong Kong retailing business, Mainland Chinese visitors are the main driver of business. Referring to the statistics on visitor arrivals provided by Hong Kong Tourism Board in 2014, arrivals from Mainland China in 2013 grew by 16.7% over the previous year, setting another record high in the number of Mainland Chinese arrivals for the year and even being nearly five times growth since the launch of Individual Visit Scheme(IVS) in 2003. The Mainland Chinese visitors are indeed crucial not only to Lukfook, but also the whole of Hong Kong retailing industry.

In terms of product sales in the retailing market, the big drop in gold price in 2013 has led to a substantial increase in gold/ platinum sales (67.2% of total sale in 2014 and 62.7% in 2013) while sales of gem-sets stood lower at 37.3% in 2014 and 32.8% in 2013. However, the gross profit from the sale of these 2 groups of products revealed something interesting. Despite a higher sale volume, the gross profit from gold/ platinum was lower than that of gem-sets (due to higher profit margin of gem-sets). Gold/ platinum accounted for 39.8% of gross profit for 2014 and 34.5% for 2013, whereas gem-sets accounted for a much higher percentage at 60.2% for 2014 and 65.5% for 2013. It shows that gem-set are more profitable to the company and it will be preferable to focus more on gem-sets marketing and sales.

(See appendix 7D.)

## **B. Business nature and SWOT analysis**

The gold/ jewellery industry is a business with very distinctive nature. Gold has an internationally regulated price and diamonds/precious stones have also similar indicative prices according to their grading and size. Therefore, gold/jewellery merchants like are selling nearly the same products (same raw materials) at comparable prices. What could make Lukfook improve more and gain a better market share will be its brand/ marketing efforts to attract more people as well as excelling design quality and customer services.

Using a simple analysis tool, SWOT analysis, we will cover the **S**trengths, **W**eaknesses, **O**pportunities and **T**hreats of the business environment of Lukfook. These 4 dimensions of analysis will cover a wide range of external environment of the HK retailing business, the internal capacity and resources of Lukfook, its product portfolio, success factors and as well as its competitive positioning in the industry.

### **1. Strengths**

#### 1.1 Stable and strong business performance

With reference to chapter 3, the Group's profitability has been improving steadily. Its

revenue keeps increasing, sometimes surpassing the profitability ratio of its major competitors. Lukfook has proven record for business growth and expansion

### 1.2 Extensive network with international presence

Established in 1991, Lukfook always responds to its corporate vision, “Brand of Hong Kong, Sparkling the World”. The expansion of its overseas market, such as Canada and America, and its speed in opening retail outlets in Mainland China and Hong Kong is impressive.

### 1.3 Quality Assurance and excellent customer services

Lukfook is considered as a reliable brand by both Hong Kong and Mainland customers because of its high level of product quality. It exercises strict quality control in all parts of production and has professionally met international requirements including various ISO certifications. It also stands out in customer services. The motto of the Group is “Exquisite Craftsmanship, Quality Services and Customer-oriented”. Lukfook was awarded the Customer Service Excellence Award 2014 and ERB Manpower Developer Award Scheme by the Employees Retraining Board. At the same time, the quality product design is another Lukfook’s strength, as witnessed by the various awards granted to Lukfook in various jewellery design competitions.

(A full list of awards for 2013 and 2014 could be found in Appendix 7A, also see 7D.)

## **2. Weaknesses**

### 2.1 Relative small equity size

The total equity of the Group as at 31March 2014 is HKD\$7,699,155,000, while that of Chow Tai Fook is HKD\$38,452,400,000. The Group’s equity is nearly 5 times less than that of Chow Tai Fook. Because of this, the Group may lack capabilities and resources to expand its business.

### 2.2 Indistinct brand image

As mentioned above, gold-smith/ jewellery retailers are selling very similar products, it is difficult to stand out from the peer group. Though Lukfook has won numerous quality and customer services awards, it's has paradoxically limited brand recognition amongst the general public. Brand image is vague and the customers often cannot identify Lukfook among all the retailers.

## **3. Opportunities**

### 3.1 Positive government policies like the IVS bringing about enormous business



Since 10 years ago, the IVS scheme has brought in great business opportunities for the Industry. In 2013, Mainland China represented Hong Kong's largest visitor source market with 40.7 million arrivals. The Scheme is now implemented in 49 mainland cities in order to encourage communication and visits between the Mainland and Hong Kong. Lukfook's 2013 and 2014 annual reports revealed that the mainland customers contributed 60+% of the value of retail sales of the Hong Kong retailing business. Assuming that positive government policies will continue (despite occasional controls), Lukfook can potentially benefit from boosting business opportunities.

### 3.2 Growing number of the middle-class in Hong Kong and Mainland China

Hong Kong and Mainland China have a significant growth of wealthy middle-class (high-earning professionals, entrepreneurs, etc.). These people, and probably their next generations, have not only financial independence for their basic necessities but also extra revenue to spend for pleasure-related items.

### 3.3 Growing demand for luxury products of Hong Kong people and Chinese nationals

In relation to a growing middle class, wealthy people look for activities/ objects of luxury, taste and class as a way to uplift themselves. Gold-smith and jewellery are traditionally considered as luxury items and therefore enjoy higher and higher popularity amongst this weather group of customers.

## **4. Threats**

### 4.1 Possible limitation on the IVS multiple-entry permit (一簽多行)

Recently, there have been propositions to control the IVS. If such restriction is implemented, the number of mainland tourists may be greatly reduced. Since mainland tourists are the major customer of the Group, this will definitely have negative effects on the Group's sales.

Just in February 2015, there was a freezing of the number of Chinese cities granted with IVS privilege. The potential negative effects of this change cannot be under-estimated. Mr Lee Ka Shing, the wealthiest man in Hong Kong, has expressed his concern publicly and even projected that the Hong Kong Hang Sang Index will drop by 1000 points the day when the IVS disappears. (See Appendix 7B for the news)

### 4.2 More and more intense competition from competitors

Competition in the Industry is fierce. For example, Chow Tai Fook, Chow Sang Sang and TSL are all bigger in size in terms of assets and therefore have bigger capacity to

compete and expand. Lukfook with its smaller equity needs much more efforts to ensure and enhance its competitive positioning in the market.

## **5. Business plan**

### **A. Strategy and Objective**

The strategy of the business plan is mainly based on the SWOT analysis, as follows:

- For STRENGTHS: To consolidate and reinforce strong and winning areas
- For WEAKNESSES: To handle and overcome problematic areas
- For OPPORTUNITIES: To tap on and maximise opportunities
- For THREATS: To understand, be on the alert and be prepared to react flexibly in case threats turn to real problems

Lukfook is in positive and growing trend in terms of business performance.

The objectives are therefore to enable (1) ongoing success and expansion of the current business based on focus on Hong Kong retailing market with key revenue from Mainland China and (2) a better balance between clients from Mainland China so that Lukfook will be less exposed in case of a sudden drastic decrease of Mainland China customers.

### **B. Major Actions**

The business plan will be built with reference to the **4Ps ideas of marketing (Product, Place, Price and Promotion)**

#### **1. Transforming brand image**

In the modern competitive commercial world, a distinctive brand image is crucial to business success. Though Lukfook has won many awards on its product quality and customer services (appendix 7A), the brand recognition is relatively weak amongst the general public in Hong Kong. For those who recognize the brand, the impression is that it is old-fashioned, too traditional and lack of creativity. It is therefore believed that a transformation of the brand image of Lukfook will bring in significant positive impact to its business performance in the long term. The new brand image should project Lukfook as a modern, creative and luxurious brand.

#### **Detailed actions**

1.1 To have a celebrity with strong Asian standing as its spokesperson (an example will be a well-acclaimed Korean star Song Ji-hyo or equivalent).

1.2 Re-new the publicity style and channel. Lukfook could make more active use of the internet platform for its advertisement (e.g. social platforms like Facebook,

Wechat and different e-newspapers).

1.3 Cooperate with radio channels to have regular talks on gold/ jewellery-related topics. This helps with the professional and modern image of Lukfook and is an economic means to attract the public attention in the long run.

## **2. Opening a flagship store in Hong Kong (“Place” concept)**

In 2013, Lukfook has opened two flagship stores in Macau and Mainland China (Wuhan). The same idea of opening a flagship store should apply in Hong Kong but carried to yet a higher level (even more exquisite to give customers a distinctive shopping impression). This will reinforce solidly the central business position of the Hong Kong retailing network.

As Lukfook is smaller than its major competitors, it should not compete in size of the retail network (i.e. the number of shops). It should target to win in the unique shopping experience it offers to customers. The style of the flagship store should follow a few principles:

- Having a modern, stylish and glamorous outlook which matches the company’s vision of a “Hong Kong brand, Sparkling worldwide”
- Having a spacious, leisure but exclusive area for pre-sale and post-sale services where professional, thoughtful staff will make all customers feel like a VIP and where quality and brand name drinks will be offered (e.g. Nespresso coffee). Customers will be given an exceptional but cosy and personal shopping experience not found elsewhere in the Industry in Hong Kong. The same area could be used for ad-hoc marketing or promotions events for the VIP clients.

## **3. Strengthening the loyalty programme ( “Price” & “Promotion” concepts)**

Lukfook and nearly all its competitors have their own loyalty programs, offering similar discounts or promotions. If Lukfook continues to offer a loyalty program too similar to the others, it will be too ordinary and average; if it offers a loyalty program too attractive, it may risk reducing the profit margin too much.

Therefore, the strategy of strengthening Lukfook’s loyalty program will focus on occasional “extra bonus” promotions in the form of very big price discount or cash award. The discount offered must be visibly bigger than all of its competitors but which will only be applicable during a short fixed period every time to avoid too heavy an impact on the profit. The key idea for these occasional “extra bonus” promotions is to give a positive surprise to customers – a way to attract them to shop in Lukfook. It is believed that this measure will benefit more Hong Kong locals than the Mainland Chinese customers since the latter is not always physically present in Hong Kong. It is therefore a way to good way to increase the Hong Kong based customers, possibly

winning them over from Lukfook's competitors.

#### **4. Up-grading marketing campaigns at 2 levels ("Promotion" concept)**

Lukfook should design/upgrade marketing campaigns to strengthen and extend the business's client base at two levels as follows:

4.1 For existing VIP clients: VIP clients are those with generally higher consuming abilities. They could be screened through the loyalty database or determined by a certain level of purchase value. It is believed that this group of customers look for higher quality of life and search more for "class" and "taste" when they shop. Lukfook should consider organising for these VIPs ad-hoc marketing activities which are prestigious, creative and free.

Examples are: (1) free and exclusive seminars or talks on gold/ jewellery-related topics such as jewellery design, jade authentication, diamond appreciation, etc. As Lukfook has owned a subsidiary gems laboratory, China Gems Laboratory Limited, it can readily invite experienced and certified gemmologists to host these activities (2) Art exhibition or other cultural activities. Exclusive activities as such are rare amongst competitors and are expected to consolidate and reinforce the VIP clients' relation.

4.2 For new customers: As all gold/jewellery merchants are selling similar products at comparable prices, whichever merchant offers the most attractive marketing activities will win more customers. Lukfook could organise special events mixed with marketing cross-selling. Examples are: (1) movie appreciation (2) talks on gold/jewellery/watches followed by marketing promotions

#### **5. Designing products with limited editions ("Product" concept)**

Limited editions have always a certain attraction to customers due to its scarcity of supply. Lukfook has already owned a Rilakkuma™ series, which is a unique one in the whole industry. It is recommended that Lukfook expands the idea of limited editions of products. For example, Doraemon has recently become a hit and a collective memory of the Hong Kong public. Lukfook could make use of this opportunity to issue a limited collection of Doraemon. Appreciation of Doraemon programs/movies can also held afterwards. This offers customers an enriched experience of buying from the limited edition together with a related cultural activity of the same theme. Other limited editions should be issued on a regular basis.

#### **6. Developing e-commerce under the Hong Kong retailing network**

In Lukfook's annual report, it has stated its intention to develop its e-commerce more

actively in order to strengthen the Group's client base and attract new customers. Online selling platform can be developed. Lukfook has already owned an online trading platform, 'Jewellworld' and is also selling online through four different sales platforms including tmall.com. However online sales are still limited in result. It is recommended that Lukfook develops a more extensive e-commerce platform with more active promotion.

Developing online platform allows customers to order products anytime and anywhere. This is in line with the change of shopping habits of customers where online shopping is a growing trend. More importantly, E-commerce provides Mainland Chinese customers another channel for purchasing. If restrictions are added to the IVS Scheme and fewer Mainland Chinese visitors can come to Hong Kong, these customers could shop online. It is to offer unique features to make the online platform attractive (e.g. special discount for online purchases, exclusive models of products not available in shops, reliable and affordable delivery charges, etc.). We could say that actively developing e-commerce is not only a way for business expansion but also an effective way for Lukfook to reduce its heavy reliance on Mainland Chinese visitors coming to Hong Kong. They could shop on the Hong Kong retailing network without physically visiting Hong Kong.

### C. Implementation plan

	2015				2016			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Transforming brand image	R	R+D	D+I	I	E	E	E	E
Opening a flagship store in HK (implementation by a separate team)				I	I			
Strengthening loyalty programme	R	R+D	D+I	D+I	E	E	E	E
Upgrading marketing campaigns	R+D	D+I	I+E	I+E	R+D	D+I	I+E	I+E
Designing products with limited editions	R	R+D	D	D+I	I	I+E	D+I	E
Developing e-commerce	R	R+D	R+D	D+I	I	I+E	I+E	E

D: Development E: Evaluation I: Implementation R: Research

### D. 1. Budget

	Details	*Budget (HK\$'000)
Transforming brand image	Inviting spokesperson	2,000
	Public relation and advertisement	3,000
	Theme talks on radio channels	500
Opening a flagship store	Opening a flagship store	0

in Hong Kong	(* under a separate budget, outside this study)	
	Public relation	500
	Special events	500
Strengthening loyalty programmes	Providing special discounts	1,000
	Cash rewards	1,000
Upgrading marketing campaigns	Rental and organisational expenses (venue and food catering )	500
	Inviting guest speakers	250
	Miscellaneous	250
Designing products with limited editions	Promotion, advertising	500
	Related cultural activities (optional)	0
Developing e-commerce	Research and development (separate IT budget)	0
	Extra staff resources (separate IT budget)	0
*Budget: split between 2015 & 2016		<b>Total</b>
		<b>10000</b>

## 2. Budgeted income statement for the year ended 31 December 2015 and 2016

	2014	2015	2016	Assumptions
	HKD'000	HKD'000	HKD'000	
Revenue	19 214 930	19 599 229	19 991 213	2% increase YTY based on 2014 revenue
(Cost of sales)	15 000 776	15 300 792	15 606 807	2% increase YTY based on 2014 cost of sales
Incremental revenue	N/A	19 599	99 956	With implementation of business plan, an incremental revenue of +0.1% of 2014 revenue for 2015 and +0.5% of 2015
Gross profit	4 214 154	4 318 036	4 484 362	
(Selling and distribution cost)	1 923 385	1 961 853	1 961 853	2% increase YTY based on 2014 selling & distribution cost
(Admin cost)	150 841	153 858	153 858	2% increase YTY based on 2014 admin cost
(Incremental costs)	N/A	5 000	5 000	10M HKD divided by 2 years
Operating profit	2 139 928	2 197 325	2 363 651	
(Income tax)	453 545	462 616	471 868	2% increased based on YTY income tax
Profit for the year	N/A	1 734 709	1 891 783	

## E. Summary of Expected benefits

	Tangible benefits	Intangible benefits
Transforming brand image	HKD119,555,000 Refer to incremental revenues shown in the budgeted income statement above (19,599,000+ 99,956,000)	- Enhances the brand image & recognition, bringing in higher business sale in the long term
Opening a flagship store in Hong Kong		- Improves customer shopping experience and market status
Strengthening loyalty programmes		- Reinforces customers' loyalty
Up-grading marketing campaigns		- Strengthens marketing effectiveness. - Reinforces customers' loyalty - Attracts new clients
Designing products with limited editions		Improves product range richness and diversity
Developing e-commerce		- Diversifies shopping channels - Reduces exposure due to possible decrease in Mainland visitors to HK - New shopping experience to clients

## 6. Conclusion

Lukfook is a smaller-size company compared to major competitors in the Industry. However, thanks to its emphasis on product quality, product design and customer service, under the leadership of a good management team, it has shown its abilities to develop and expand its business internationally. The financial performance in the past 10 years has been particularly good since it has benefited extensively from the Mainland Chinese visitors of the IVS scheme. However, the IVS policy changes from time to time and may cause a drastic drop in the related business/ revenue. Therefore, it is a real threat to Lukfook.

It is believed that with the business action in Section 5, together with an expanded retail network in Hong Kong, Lukfook will be able to increase the number of Hong Kong clients while continually attracting customers from Mainland China. It will be able to have a better balance of its Mainland China/ Hong Kong clients. Its exposure to fluctuating Mainland visitors will be reduced. It will take time for the positive results of the recommended actions to take place, but it is believed that the retailing business in Hong Kong will be enhanced gradually. Lukfook will become stronger and be able to continue with its vision "Brand of Hong Kong, Sparkling the World".

## **7. Appendices**

### **7A Awards Obtained by Lukfook in 2013 and 2014**

#### **2014**

- Named “Consumer Caring Company”
- Won “The Excellence of Listed Enterprise Awards”
- Won "2014 Retail Asia-Pacific Top 500 Awards" and Attained "Top 10 Retailers in the Hong Kong Market" and "Best-of-the-Best Retailers Award - Hong Kong"
- Won “Hong Kong Star Brand Award - Enterprise”
- Attained “Greater China Super Brands Award 2014” from “East Week Magazine”
- Won the First Runner-up in “Ordering Oxfam Rice (Organization Category)” and “Award for Three Consecutive Years of Support” in “Oxfam Rice Sale 2014”
- Awarded “Happy Company” Label and Committed to Fostering a Happy Workplace Culture
- Won “Prime Awards for Eco-Business”
- Lukfook Group Won “Hong Kong Service Awards”
- Won Awards of “Open Group” and “The Fashionable 18K Group” in “Chuk Kam - Jewellery Design Competition 2014”
- Highly Commended in “Hang Seng Pan Pearl River Delta Environmental Awards”
- Won “Best of Show Award of Open Group” in “The 15th Hong Kong Jewellery Design Competition”
- Attained “Hong Kong Top Brand Ten Year Achievement Award” in “2013 Hong Kong Top Brand Awards”
- Attained Consecutively the Honour of “Excellence Enterprise of National Cleaner Production Audit in Guangzhou”
- Won “Grand Award - Silver Award” in “Customer Service Excellence Award 2013”
- Awarded “Certificate of Merit (Enterprise Category)” in the “4th Hong Kong -Corporate Citizenship Award Scheme”

#### **2013**

- Awarded “Perfect Wedding Jewellery Award” by COSMO Bride Magazine
- Ranked Second among “Top 10 - Comprehensive Strength (Medium Enterprises)” in “Top 100 Hong Kong Listed Companies Selection 2013”
- Won “Judging Panel – High Potential Corporate Brand” In "Prestigious Corporate Brand Awards 2013"
- Awarded “The Excellence of Listed Enterprise Awards 2013”
- Awarded “My Favourite Jewelry Award” by Darizi Magazine
- Commended As “Hong Kong-Guangdong Cleaner Production Partners



(Manufacturing)”

-Won “Hong Kong Star Brand Award 2013 - Enterprise”

-Won “Outstanding QTS Merchant Award - Bronze”

-Won “2013 Retail Asia-Pacific Top 500 Awards” Attained “Top 10 Retailers in the Hong Kong Market” and “2013 Best-of-the-Best Retailers Award – Hong Kong”

-Won Three JNA's Award Including the “Brand of the Year” Award

-Luk Fook Jewellery Centre Attained Consecutively the “Quality Water Recognition Scheme for Buildings” Certificate

-Attained first runner-up in "Ordering Oxfam Rice (Organization Category)" in "Oxfam Rice Sale 2013"

-Attained Consecutively the “Prime Awards for Eco-Business”

-Awarded as “Manpower Developer” by the Employees Retraining Board

-Attained the Honour of “Consumers’ Most Favourite Brand” in “Top 5 Chinese Jewellery Brands Election 2012” Campaign

-Received the Certificate of Recognition from TWGHS in “TWGHS Corporate Partnership Recognition Ceremony 2013”

-Attained “Hong Kong Service Awards 2013” from “East Week Magazine”

-Design piece "Life" attained “Best of Show Award of Open Group” in “The 14th Hong Kong Jewellery Design Competition”

-Attained “Green Medalist” and “3 Years+ Entrant” in “Hang Seng Pearl River Delta Environmental Awards 2011/12”

-Attained “Corporate Citizenship Logo (Enterprise Category)” in the 3rd “Hong Kong Corporate Citizenship Award Scheme”

-Awarded as “Consumer Caring Company” by GS1 Hong Kong

-Awarded the Honourary Title of “2012 Most Competitive Brand in the Chinese Jewellery Industry”

-Obtained “Conscientious Recycling” Charter from Friends of the Earth (HK)

## **7B Mr Lee Ka Shing’s comment on the importance of Mainland visitors to the Hong Kong economy (extract)**

「沒自由行 股市要跌千點」 Hong Kong Mingpao Daily 2015 年 2 月 27 日

【明報專訊】身兼長實（0001）及和黃（0013）主席的李嘉誠，昨日在記者會上回應提問香港面對最大的危機是什麼時，不諱言是政制改革問題。他認為，若政改未能夠成功通過，「包括我在內，個個都是大輸家」。他更指出，若對香港有責任心及有愛心的話，便應該讓政改通過。他又稱，香港最大的好處是有內地作為大靠山，若真的取消了自由行，他相信股票（恒生指數）會跌逾 1000 點，因此認為不要過猶不及。

## **7C Experiment at Lukfook's stores**

### **Details:**

Date: 24<sup>th</sup> February, 2015 (Tuesday)

Time: 3:30pm to 4:30pm (Experiment A)

4:30pm to 5:15pm

Venue: Lukfook Jewellery Mong Kok Branch 7 & Mong Kok Branch 8



### **Aims:**

- A. To observe the situation in the shops of Lukfook Jewellery in bustling urban area — Mong Kok, where both mainland tourists and Hong Kong people frequently go for shopping
- B. To experience the customer service briefly.
- C. To find out the popularity of Lukfook Jewellery, and the types of customers

### **Ways for experiment:**

- A. Stood outside of the stores and observed the situation.
- B. Visited two stores in Mong Kok and pretended to look for the suitable jewellery for the group mate's mother's coming birthday.

### **Observation:**

- A. From 3:30pm to 4:30pm, an average of 46 potential customers looked at the jewellery and gold displayed in the cupboards outside each store. On average, about 30 potential customers entered one Lukfook Jewellery stores.
- B. As we observed, two staff would serve one customer (one group of customers), the staff were thoughtful and caring, and were willing to show a plethora of affordable jewellery to us even we told them with a limited budget ranged from \$1000-\$2000. Even though we did not buy any jewellery from the shops, they persuaded us sincerely and politely. And they provided us with useful suggestions that suited the needs of various people, for example, instead of golden rings, K-gold or silver rings are more suitable for women who do domestic work at home regularly and frequently to ensure the appearance of

the ring.

C. There are various jewellery stores in Mong Kok, including Lukfook, Chow Tai Fook, Chow Sang Sang ones and the smaller jewellery retailing stores. About 80% of potential customers were mainland Chinese, according to our observation.

### Conclusion:

A. There are keen competitions in the jewellery retailing industry and it is necessary to improve the brand becoming fashionable and outstanding. Most of the mainland customers would compare the price of the jewellery from different companies by entering every single shop, showing the importance of more shops available in areas soaked with mainland tourists.

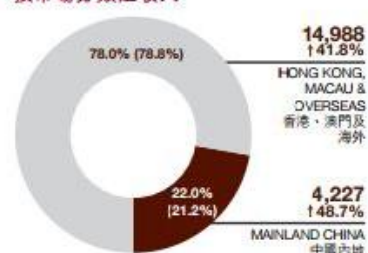
B. The comforting customer service showed the professional training of the staff, which gave the potential customers a positive impression.

## 7D Operational highlights from 2014 annual report

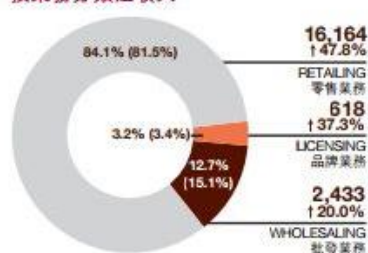
### OPERATIONAL HIGHLIGHTS 營運摘要

#### REVENUE AND PROFIT ANALYSIS (HK\$ million) | 收入及溢利分析 (百萬港元)

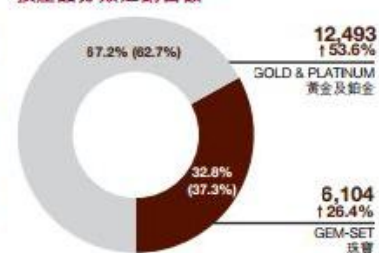
**REVENUE BY MARKET**  
按市場分類之收入



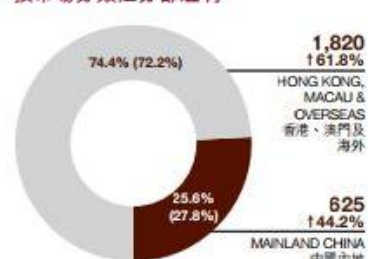
**REVENUE BY BUSINESS**  
按業務分類之收入



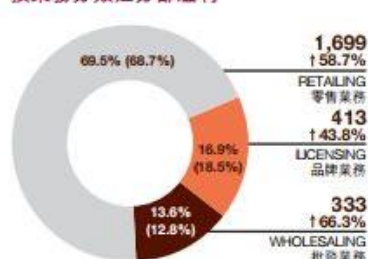
**SALES\* BY PRODUCT**  
按產品分類之銷售額\*



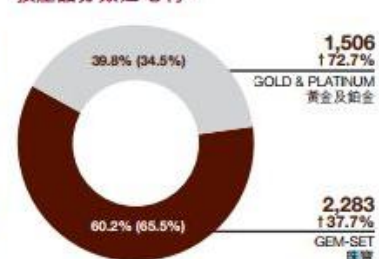
**SEGMENTAL PROFIT BY MARKET**  
按市場分類之分部溢利



**SEGMENTAL PROFIT BY BUSINESS**  
按業務分類之分部溢利



**GROSS PROFIT^ BY PRODUCT**  
按產品分類之毛利^



Remarks: Comparative figures for the year ended 31 March 2013 are shown in brackets

註：截至 2013 年 3 月 31 日止年度之比較數字於括號內顯示

\* Sales = Revenue - Licensing Income  
銷售額 = 收入 - 品牌業務收入

^ Gross Profit = Consolidated Gross Profit - Gross Profit of Licensing Income  
毛利 = 綜合毛利 - 品牌業務毛利

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