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1. Executive Summary

Before our analysis, we are now going to give the executive summary of the report and the Hoe Hin Pak Fah Yeow Manufactory Limited.

1.1 Vision and Mission of Hoe Hin Pak Fah Yeow Manufactory Limited

1.2.1 To serve the community with a series of multi-purpose household Chinese medicine with the considerable experience of the company.

1.2.2 Provide humanity aid to the poor's and the one in need by sharing the dominant success of the company in order to build a better world.

1.2.3 To be the **premier provider** of **top quality** medicated products, which are made in **Hong Kong**, for all walks of life that are superior to other choices in the markets. This can be achieved by adopting a **good quality management**.

1.3.3 To provide steady income by long term investment and by making use of surplus cash for low to medium risk investments

1.2 Method of analyze

1. Five force model
2. Internal analyses
3. Analyze of distinctive competence
4. Financial analyses
5. SWOT analysis
6. Analyze market segmentation
7. Conduct 4Ps to form strategies

1.3 Key findings and recommendation

We concluded that Hoe Hin Pak Fah Yeow Manufactory Limited is a company with high competitiveness. Although the external situations were found not favorable, the distinctive competence, positive internal situation and financial position allow its sustainable development. Therefore, we promote strategies according to the 4Ps and financial recommendations for its further development.

2. Introduction

2.1 Background

Hoe Hin Pak Fah Yeow Manufactory Limited has invented the medicinal oils for **over 85 years**. It set up its first production plant in Hong Kong in 1950. And in the 80s, it developed its market to China and South-east Asia. The main products of the company are Hoe Hin White Flower Embrocation (和興白花油) which was invented in 1927, Hoe Hin Strain Relief (和興活絡油), Hoe Hin White Flower Ointment (和興白花膏) and Fuzai 239(福仔239),etc. It is a **reputable company** which has received the Hong Kong Top

Ten Brand Name Awards (1999), (Good Manufacturing Practice) certification and ISO9001:2000 certificate (2000). It is expanding to countries like USA, Holland, Australia and Canada.

2.2 Ambition of the report

The ultimate goal of the business plan is to analyze the situation as well as the orientation of the Hoe Hin Pak Fah Yeow Manufactory Limited in order to provide feasible methods to extend the business development of the company.

2.3 Business Objectives

1.3.1 Expanding market share

- i. Promote to the next generation.
- ii. Renew and regulate the images of the enterprise and products continuously so as to accompany the change of citizens' preferences and cultures.
- iii. Increase the total sales abroad to more than 40%.

1.3.2 Enhance the goodwill of the enterprise

1.3.3 Fulfilling the interest of shareholders of the company

Enhance the confidence of shareholders in the hope to soar the stock price.

2.4 Recommended strategy

Here are the main recommended strategies for the company. To attract customers, the company can add the elements of lucky draw into the products, develop applications and offer discounts to the public at the end of the financial year. For boosting the sales, it can set up some vending machines and stores in the tourists' attractions. For promotion, the company can invite celebrities to advertise the products, send samples to elderly houses, sponsor the Marathon or other sports activities, and produce micro films.

3. Market analysis

3.1 Industry definition

Hoe Hin Pak Fah Yeow Manufactory Limited belongs to medicinal oil manufacturing industry. It is a kind of **secondary production** which turns raw materials into medicinal oil. It is one of the most essential enterprises in the industry. In addition to Po Sum On Healing Balm, Hoe Hin Pak Fah Yeow, Tiger Balm which are the examples of the dominant brands in this industry.

3.2 The External Environment

Five force model

The five force model is an effective way to analyze the external situation of a company by using five aspects, which are threat of new entrants, threat of substitute products and services, bargaining power of customers, bargaining power of suppliers and intensity of competitive rivalry. Therefore, we are going to use it to analyze the external environment of the company.

3.2.1 Threat of new entrants

Zihua Embrocation(紫花油) entered the market in 2007. Now, the overall threat of new entrants will be analyzed.

In terms of the **legal requirement of the industry**, it is easy to apply for a manufacturer license in proprietary Chinese medicines to get the permission to enter the industry. The applicant only needs to fill in the Application Form for Manufacturer license in Proprietary Chinese Medicines and prepare suitable documents such as brief floor plan of business premises etc. These documents are not difficult to prepare as they are usually included in a manufacturing company. Therefore, it is not difficult for new entrants to enter the industry.

In terms of the **difficulty of inventing new products**, Chinese medicine Industry is based on the traditional technique of manufacturing medicine. The knowledge of Chinese medicine is very common in Chinese society. Consequently, many people have the ability of inventing new products. They may set up companies to enter the market and pose a threat to the company.

In **capital requirement for entering the industry**, since there are some companies which provide medicine manufacturing services, the capital requirement for entering the industry is lowered. These companies can help new entrants to analyze the market, merchandize raw materials, design and pack the products. Consequently, new competitors do not need to buy equipments, raw materials and factory for manufacturing. This allows them to enter the industry with a smaller investment.

In conclusion, due to the low barrier for new entrants, this aspect **is not favorable** to Hoe Hin Pak Fah Yeow Manufactory Limited.

3.2.2 Threat of substitute products or services

We will analyze in terms of reputation, application of the products, method of intake and the ingredient of the product.

-Peppermint Cure(法國雙飛人藥水) : First, in terms of **reputation**, Peppermint Cure starts making the products since 1838. Therefore, goodwill has been built among the customers. In addition, its function is similar to Hoe Hin Pak Fah Yeow's. However, Hoe Hin Pak Fah Yeow is a local product, its experiences and history is more widely accepted in Hong Kong.

Second, in terms of **the application of the products**, both Peppermint Cure and Hoe Hin Pak Fah Yeow can stop the itchiness caused by mosquitoes. It can also deal with motion sickness, so customers may choose Peppermint Cure instead of Hoe Hin Pak Fah Yeow.

Third, in terms of **method of intake**, the products of Peppermint Cure can be used both internally and externally while the products of the company only can be used externally, hence customers may choose Peppermint Cure instead of Hoe Hin Pak Fah Yeow. However, Hoe Hin Pak Fah Yeow provides both liquid and solid version of the white flower series. This characteristic can provide not one more method of intake. As a result, Hoe Hin Pak Fah Yeow can confront the threat of Peppermint Cure.

Forth, in terms of **ingredients**, the products of Hoe Hin Pak Fah Yeow Manufactory Limited contain many ingredients: wintergreen oil(冬綠油), menthol(薄荷腦), eucalyptus oil(桉葉油), camphor(樟腦)etc. Therefore, customers may prefer using the products of Hoe Hin Pak Fah Yeow Manufactory Limited, as it **has the counter power** under the above threats.

To conclude, owing to the positive factor of **reputation, method of intake and application of the products**, Hoe Hin Pak Fah Yeow Manufactory Limited is **favorable** when competing with Peppermint Cure.

3.2.3 Bargaining power of customers

In terms of **availability of existing substitute products**, customers can have wider choices due to the intense competition within the industry; hence they are able to choose their favorite brands. Thus, the bargaining power is high.

In terms of **buyer price sensitivity**, customers are sensitive with the retail price of the

products. The main user of medicinal oil is the general public. Since their average financial power is not high, they will be aware of the price of medicinal oil to reach their budget. In addition, medicinal oil is not a kind of luxury goods. Therefore, the consumer doesn't expect a high selling price of products.

To conclude, Hoe Hin Pak Fah Yeow Manufactory Limited is not favorable in this aspect due to the high bargaining power of customers.

3.2.4 Bargaining power of suppliers

Based on the information from National Bureau of Statistics of the People's Republic of China¹, we can know that the price of drug ingredients keep **increasing** from 2002 to 2011, and ratio of the price of drug ingredients to the quantity of drug ingredient **increases**. This represents the price per each unit of drug ingredient also increases. As a result, the phenomenon represents the **demand for the raw materials of manufacturing medicine increases**. This means the bargaining power of the supplier also increases. Therefore, suppliers will offer a higher price to sell their raw materials.

In conclusion, this aspect is **not favorable** to the company since the increasing bargaining power of suppliers may cause the company to lose its edge in the **price** of products when competing with other competitors.

3.2.5 Intensity of competitive rivalry

-Tiger Balm (虎標萬金油): In terms of the **range**, the Tiger Balm provides different products for different age groups. It even produces some new products for athletes in order to help them speed up their warm up and cool down. However, some products of Hoe Hin Pak Fah Yeow may not be suitable for children as they contain many chemicals. Meanwhile, products of Hoe Hin Pak Fah Yeow only focus on handling some diseases, such as headache and stomachache. As a result, many parents and athletes will choose Tiger Balm instead of Hoe Hin Pak Fah Yeow. They may also build up a habit of using Tiger Balm which makes it difficult to compete with Tiger Balm.

-Mopidick (無比滴): In terms of the **price**, the volume of the largest size of Hoe Hin Pak Fah Yeow is 20ml, while Mopidick is 50ml, and the price is \$44.7 and \$34.9 respectively (Mopidick's average price: \$0.698/ml ; Hoe Hin Pak Fah Yeow's average

¹ Refer to appendices Number 1

price: \$2.235/ml)², it indicates that buying Mopidick is more tangible benefit than Hoe Hin Pak Fah Yeow.

In terms of the **use of product**, both of Mopidick and the products of Hoe Hin Pak Fah Yeow Manufactory Limited are for external use. The products of Hoe Hin Pak Fah Yeow Manufactory Limited do not have any advantage in this aspect. As a result, not all customers will choose our product because of **lacking of uniqueness** in this aspect.

In conclusion, the competition of the industry is intensive and the competitors are competitive. As a result, this aspect is not **favorable** to the company.

3.2.6 Overall conclusion

Due to the unfavorable factors, which are threat of new entrants, bargaining power of customers, bargaining power of suppliers and intensity of competitive rivalry, it can be concluded that the Hoe Hin Pak Fah Yeow Manufactory Limited is **not favorable** in its external environment of its industry.

4. Internal Analysis

4.1 Resources

Resources owned by a company are very important for making future plans, entering new markets, dealing with threats and to handle the challenges of other competitors. As a result, resources are a very important factor for the sustainable development of the company. Therefore, we are going to analyze the resources owned by the Hoe Hin Pak Fah Yeow Manufactory Limited.

4.1.1 Tangible resources

Hoe Hin Pak Fah Yeow Manufactory Limited has the following resources:

Resources(2012)	Value (\$000)
Investment property	247,283
i) 12/F, Grand Building, Hong Kong	
ii) 7/F, Lippo Leighton Tower, Hong Kong	
iii) 13B, 13/F, North Point Mansion, Hong Kong	
iv) 4A, 4/F, Hennessy Apartment, Hong Kong	
v) No. 03-07, Valiant Industrial Building, Singapore	
vi) Princess Court, London, United Kingdom	
Factory and equipments	20,850
Stocks	24,583

In terms of **investment property**, there are two factors which benefit its production.

² First hand survey at Mannings

(Shop 8, Tin Ching Shopping Centre, Tin Ching Estate, Tin Shui Wai, New Territories) on 14 November 2013

When the company invests in the property market they can earn rental revenue from the property. As a result, company can use this revenue to enhance the quality and promote strategies. Moreover, the property may provide hardware for the future. The company may need those premises in the future for factories or offices, which may help the firm to expand its production capacity, its market and save money for expansion.

In terms of **Factory and equipments**, the company can provide a stable, reliable production line with a lower production overhead. It owns a production plant. As a result, it won't face the problem of dealing with rental contacts. Also, the company does not need to find a new production plant due to the end of the rental contract. This provides a stable, reliable environment for Hoe Hin Pak Fah Yeow Manufactory Limited. Also, it does not need to pay the rental expenses for the company since it owns factories. Therefore, the production overhead and financial burden of the company can also be lowered.

4.1.2 Intangible assets

Hoe Hin Pak Fah Yeow Manufactory Limited has the following intangible assets:

Intangible assets(2012)	Value
Intangible asset	\$2,450 000
Famous broad of directors: GAN Wee Sean (顏為善) Stephen GAN Fock Wai (顏福偉)	/
Available-for-sale financial assets	\$ 9,577,000

4.1.3 Distinctive Competences

Understanding the **distinctive competences** of a company can help it to **make a good use of its advantages** and promote strategies. Therefore, we are going to analyze the distinctive competence of the Hoe Hin Pak Fah Yeow Manufactory Limited.

From the **variety of the product**, the company manufactures a series of products. It provides products with different functions for their customers to choose. For example, Hoe Hin White Flower Embrocation, Fuzai 239, Hoe Hin Strain Relief, White flower Ointment. As a result, they can fulfill various target customers, i.e. customer from different age groups, different level of wealth, etc. This can allow Hoe Hin Pak Fah Yeow Manufactory Limited to develop its business in different aspects to maximize their profit

made.

From its **package and bottle design**, Hoe Hin Pak Fah Yeow Manufactory Limited has some packages that are unique and easy to recognize. For instance, Fuzai has become the logo of the company and the symbol of the product Fuzai 239. Also, some of their products are using glass bottle as its container, it makes the products look more elegant. By using its popularity, it may be able to further develop its brand. In addition, its **unique** package and bottle design can attract the public to buy its products when entering a new market.

From the **reliability of Hoe Hin Pak Fah Yeow Manufactory Limited**, it has received for many awards, such as Q-mark Certificate - White Flower Embrocation (2007), Hong Kong Top Brand Mark (2007) etc. It shows that Hoe Hin Pak Fah Yeow Manufactory Limited was approved, and proved to be reliable.

Form the **advertisement of Hoe Hin Pak Fah Yeow Manufactory Limited**, the unique advertising strategy of the company has raised the awareness of the public on the firm. Music and songs are mixed with advertisement. For instance, the song 愛多八十年 sang by 顏福偉 has attracted many people's attention, the lyrics totally shows the history of Hoe Hin Pak Fah Yeow Manufactory Limited and the passion of making their products.

To conclude, the Hoe Hin Pak Fah Yeow Manufactory Limited shows its **distinctive competence** in the above four aspects. These distinctive competences can make the company to **maintain its competitiveness** in the industry.

4.2 Financial analysis

The profitability, management efficiency, financial position of a company are important information to show the financial situation of a company. With well-prepared financial analysis, the company can make strategies and control actions. Therefore, the following is about the financial analysis of the Hoe Hin Pak Fah Yeow Manufactory Limited.

Profitability

Profitability ratio	2012	2011
Mark Up	44.49%	30.68%
Gross Profit Ratio	30.79%	23.48%
Net Profit Ratio	55.43%	44.27%
Expense-sales Ratio	25.20%	26.11%

Return On Capital Employed	12.97%	11.83%
Return On Long-term Capital	13.16%	12.20%
Return On Shareholders' Equity	13.48%	11.92%

Hoe Hin Pak Fah Yeow Manufactory Limited is quite profitable in both 2011 and 2012. Moreover, there is a slight increase in the company's profitability in 2012 because of the higher mark-up (44.49%), gross profit ratio (30.79%) and net profit ratio (55.43%). However, the cost of goods sold has suddenly increased from \$88,712,000 to \$88,965,000.

Liquidity

Liquidity ratio	2012	2011
Current Ratio	1.18 : 1	0.96 : 1
Quick Ratio	0.97 : 1	0.79 : 1
Accounts Receivable Turnover	3.79 times	4.08 times
Day's Sales In Accounts Receivable	96.21 days	89.45 days
Inventory Turnover	1.90 times	1.75 times
Day's Inventory On Hand	192.28 days	208.17 days

Hoe Hin Pak Fah Yeow Manufactory Limited is more liquid in 2012 compared with 2011. The current ratio (1.18: 1) and liquid ratio (0.97: 1) in 2012 was higher than the previous year, we could say that the ability of the company to meet the short-term obligation was enhanced. Other than that, the inventory turnover rose sharply (1.90 times) and day's inventory on hand drop gradually (192.28 days) in 2012, it indicated that the inventory was being sold more quickly by the company in 2012. However, the account receivable turnover (3.79 times) was slightly decreased in 2012; it showed that the debts were being collected a bit slower in 2012 compare with 2011.

Solvency

Solvency ratio	2012	2011
Debt Ratio	26.51%	25.26%
Debt-to-equity Ratio	11.7%	18.6%
Interest Cover	69.92 times	44.29 times

The Hoe Hin Pak Fah Yeow Manufactory Limited in 2012 is less leveraged than 2011. The debt-to-equity ratio of company in 2012 (11.7%) was slightly lower than 2011 (18.6%). Also, the interest cover of the company increased significantly from 44.29 times to 69.92 times. It means the company relies more on equity financing and the company's ability to meet interest payments was good in 2012. However, the debt ratio of the

company increased slightly from 25.26% to 26.51%. It indicates that there is a potential risk on relying more on debt financing instead of equity financing in the future.

Management efficiency

Management efficiency ratio	2012	2011
Asset Turnover	0.20 times	0.22 times
Return On Assets	10.97%	9.84%
Accounts Receivable Turnover	3.79 times	4.08 times
Day's Sales In Accounts Receivable	96.21 days	89.45 days
Inventory Turnover	1.90 times	1.75 times
Day's Inventory On Hand	192.28 days	208.17 days

Hoe Hin Pak Fah Yeow Manufactory Limited's inventory turnover in 2012 (1.90 times) was higher than that in 2011 (1.75 times), meaning that the company was able to keep its inventories at a low level in 2012. Moreover, as the total asset of the company in 2011 is less than that in 2012, so the return on assets in 2011 is higher than in 2012. However, in 2011 (0.22 times), the company utilized its assets more efficiently in generating sales revenue as its asset turnover was higher than that in 2012 (0.20 times), this higher sales revenue might be brought about by its low-price policy. Furthermore, the accounts receivable turnover in 2011 (4.08times) is slightly higher than that in 2012 (3079 times), showing that the average account receivable in 2012 increased comparably than 2011, it means that the ability of collecting debts of the company is poor in 2012. As a result, the management efficiency of the company in 2012 is so far the same as that in 2011.

Return on investment

Return on investment ratio	2012	2011
Dividend Per Share	15.9 cents	12.9 cents
Earnings Per Share	24.8 cents	17.8 cents
Dividend Cover	1.56 times	1.38 times
Price-earnings Ratio	0.13	0.18

Hoe Hin Pak Fah Yeow Manufactory Limited's earning per shares increased gradually from 17.8 cents to 24.8 cents and the dividend cover of the company increased slightly from 1.38 times to 1.56 times, meaning that more potential return on holding the shares of the company but a smaller proportion of those profits were distributed as dividends in 2012. This may not be bad as it also means more profits are retained to finance its future development. Moreover, the price-earnings ratio decreased slightly from 0.18 to 0.13. It indicates that investors did not have a high degree of confidence in the

company's prospects. However, it signals that it is a good opportunity to buy the shares at low price.

Conclusion

To conclude, the above analysis clearly indicates that Hoe Hin Pak Fah Yeow Manufactory Limited is profitable, due to the rapid increase in sales. Other than that, its liquidity is higher in 2012 compare with that in 2011, this result suggested that the company has ability to meet short-term obligation. Furthermore, the management efficiency of the company maintain stable from 2011 to 2012. However, the debt ratio of the company has slightly increased in 2012; the business will be considered to be more risky if the ratio keeps increasing.

5. SWOT analysis

The SWOT analysis is an analyze method by using a matrix which consists of four elements (i.e. strength, weakness, opportunity, threat). We can sum up the overall situation of a company and give suggestion by using SWOT analysis. Therefore, we are going to analyze the company before we promote strategies.

5.1 SWOT matrix

	Positive	Negative
Internal	Strength	Weakness
	<ol style="list-style-type: none"> 1. Goodwill has been built among the customers and the company is reliable 2. There is a series of products for customers to choose. 3. The company owns its production plants. 4. The company is favorable to deal with different substitute products in the market. 5. The logo, bottle and package design of the company is significant and remarkable in the Chinese society. 6. Due to the healthy liquidity ratio, the financial position of the company is stable. 7. The director Stephen GAN Fock Wai(顏福偉) act as the symbol of the company to promote the firm. As a result, promotion effect of the company is stronger. 	<ol style="list-style-type: none"> 1. Bargaining power of suppliers and customers are high. 2. The cost of production increase simultaneously. 3. The product of Hoe Hin Pak Fah Yeow is oriented by the society as a traditional medicine. 4. Some people have allergenic effect after using the product.
External	Opportunity	Threat
	<ol style="list-style-type: none"> 1. Many mainland customers come to Hong Kong and search for products which are 'made in Hong Kong'. 	<ol style="list-style-type: none"> 1. Hoe Hin Pak Fah Yeow Manufactory Limited compete with both Western and Chinese medicine manufacturer.

	<ol style="list-style-type: none"> 2. The current interest of borrowing is relatively low. 3. Customers are looking for products made by organic products. 4. The cost of 3D printing technology is lower than before. It can be used for designing new package and bottles since it shows the model of the designed package and bottles instantaneously. 5. Customers like to use QR code to search information. 	<ol style="list-style-type: none"> 2. There is more promotion by the government on the trained traditional Chinese physician. Therefore, traditional Chinese physicians may challenge the White Flower series products. 3. The inflation problems and the devaluation of Hong Kong Dollars increase its operational expenses. 4. Counterfeit in the market may harm the goodwill of the company 5. Some new entrants have brought similar products, like Zihua Embrocation etc. 6. Many people does not like the smell of Chinese medicine
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5.2 Interpretation of the SWOT matrix

5.2.1 Using strength to match the opportunity

With further promotion of the experience of the company, a stronger confidence of the customer on its product will be built. Consequently, it can overcome the threat of the arose of traditional Chinese physician. (Refer to threat no. 2)

5.2.2 Using opportunity to overcome weaknesses

Potentially importing raw material from developing countries other than china (Refer to opportunity no. 5) can overcome the increment in cost of production. Because of the cheaper labor and transportation cost of these countries, the company may be able to find cheaper raw material supplier. As a result, the company can solve the problem of the soaring raw material price.

6. Recommended strategies

We have analysis about the external, internal and financial status of the Hoe Hin Pak Fah Yeow Manufactory Limited. There are some suggestions down below in order to promote a more sustainable development for the company.

6.1 Business Objective: Market segmentation and Target customer

In terms of **Geographic segmentation**, the company mainly focuses its business in Hong Kong. Hong Kong accounts for 62% of revenue from external customer in 2012³. As a result, the market of Hong Kong is dominant and it can greatly affect the performance of the company. Therefore, strategies should be promoted based on Hong

³ http://www.hkiaat.org/AKC/2013-2014/SSG/Business_Seminar/Denny_Tsang_ppt.pdf

Kong.

In terms of **Demographic segmentation**, the customer in all range of age account for a considerable percentage. Form the estimated Demographic segmentation for 2013⁴ we can conclude that the customer in all range of age account for a considerable percentage. All segments have a percentage higher than 5%. As a result, customers from every age group are important. In addition, the 0-14 years old segment is quite important. If the company can attract these customers to use the product of the company after they have grown up, they will become a long term customer group of the company in the future.

In terms of **Psychographic segmentation**, customer are finding for a more convenient way to consume. Owing to the development of the internet, information is transmitted in a faster way. Therefore, customers live in a more transitive lifestyle and look for simpler ways to get things that they want.

6.2 Strategies: 4Ps

4Ps are the four elements which include product, place, price, promotion. By following these four elements, we can give suggestions to fulfill customer's needs and the target customers of the company.

Products

We can add the element of **lucky draw** into the product. We suggest printing a QR code on the packaging of the products of the company. That way, customers can go to the website to register and participate in the lucky draw. This can not only boost the sales of the company but also the desire of the customer to buy the products.

The company can develop **applications (apps in smart phones)** to introduce about the company, like the examples of KFC. These applications can let customers to know more about products and discounts offered by the company. Also, we can disclose the information of its retail store so that customers can find the products easily. In addition, the applications can include some interacting games with the theme of the flagship product of the company, i.e. White Flower Embrocation. That way, the application is more attractive to the customers.

⁴ http://www.hkiaat.org/AKC/2013-2014/SSG/Business_Seminar/Dora%20Lee.ppt.pdf

Place

The company can set up stores in tourist attractions like theme parks and ngong ping village in Hong Kong. Since there is a rapid increase of mainland customers coming to these attractions in recent years, these stores can help promoting the brand of the company to the mainland market.

Vending machines for selling products of Hoe Hin Pak Fah Yeow can be set up in different locations. Regions away from the city centre like islands and traditional Chinese village in Hong Kong may not have medicinal oil retail store nearby. Therefore, setting up vending machines in these places can give a more convenient way for customers to buy these goods.

Price

Discount campaigns can be given to the public at the end of the financial year. Hence, we can boost the sales and clear up the remaining inventory.

On the other hand, the company can launch lucky bags, in which different products of the company are included. The lucky bags can be sold in a lower price so that customers can try different product of the company.

Promotion

The company can put in more money and resources in promotion. For example, it can invite some celebrities or artists, who are famous and with good impressions to advertise the products. For instance, Alex Fong, who represented Hong Kong to participate in the 2000 Olympics Games who is also one of the ambassadors of MTR Hong Kong Race Walking. Therefore, he has a fresh image, and. This can certainly help to build a healthy impression for Hoe Hin Pak Fah Yeow.

Moreover, the company can send the **samples** to the elderly houses during some traditional festivals, such as Mid-Autumn Festival, Chinese New Year, etc. As elderly usually has a high demand for medicinal oils, if we send the qualitative products to the elderly houses, the elderly may find it useful. As a result, the elderly houses will continue cooperating with the company. This can not only help build the company's goodwill, but also raise the market demand for it.

Meanwhile, it can consider sponsoring the **Standard Chartered Hong Kong Marathon** so as to promote its products to the younger generations. Since people

nowadays are more aware of their health, and they like participating in different kinds of sports, especially the Standard Chartered Hong Kong Marathon once a year. However, according to a research, around 33% of participants are lacked of skills, and they may easily get injured or not feel well during the competition. Therefore, the company can send some of its products to the venue and rescue the ones who are in need.

Lastly, the company can also invest in the productions of **micro films**. According to a research in China, there are 2 micro movies produced every day, estimated with 1 million views. Hence, we can conclude that the trend of watching and producing micro films is increasing. So, the company can sponsor the film producers in order to produce a micro film, which its theme is about Hoe Hin Pak Fah Yeow. For instance, Pepsi produces a micro movie every year so as to promote its products to its customers. This can not only build up a good reputation, but also boost its sales as people are more interested in it.

6.3 Strategies: Financial Recommendation

In order to improve the company's profitability, the company can cooperate with a cheaper supplier which provides them raw materials (herbs) so as to lower production costs. Moreover, the company can consider relocating its production plants to the place where the labor and raw materials are cheaper, such as China: the labor cost in 2010 is \$1.84 per hour, Vietnam: labor cost in 2010 is \$0.49 per hour, India: labor cost in 2010 is \$2.99 per hour⁵, etc.⁶ Furthermore, the company can also raise the efficiency of production by deploying more mechanical production lines. This can not only speed up the production process, but also reduce expenses spent on employing the labors and providing trainings.

To improve the company's **liquidity**, and to fix the problem of decreasing in accounts receivable turnover, the company should only permit credit to people who are trustworthy, this can ensure that debtors have the ability to repay his or her debts and reduce the bad debts of the company. Hence, the debts are being collected more quickly by the company; the liquidity of the business can be improved.

In order to **reduce the financial leverage**, the major task for the company is to

⁵ Information refer to China Briefing Magazine and Daily News Service, May 20, 2011, <http://www.china-briefing.com/news/2011/05/20/china-vs-vietnam-as-the-future-workshop-of-the-world.html>

⁶ Refer to appendix

repay the loan as soon as possible to reduce the total liabilities. Second of all, the company can also make full use of the credit granted by suppliers and rely more on equity financing instead of debt financing.

The company can enhance management efficiency by asking the debtors to repay debts as soon as possible suppress average account receivable figure.

7. Budget and Action plan

7.1 Budget of suggestion (Resources requirement)

Strategies	Expenses /human resources/ tangible resources	Budgeted expenses and impact
Lucky draw	1. Prize 2. Computer technical expenses 3. Package redesign expenses	\$200,000 (excluding \$75,000 technical expenses, which share with the same expense in application)
Phone and tablet application	1. Computer technical expenses 2. Application sales platform expenses	\$75,000
Stores in tourist attractions	1. Sales agents 2. Rental expenses	70000×4 stores×12months=\$3,360,000 (60% are staff cost)
Vending machines	Vending machines rental and management fee	800×12×30 machines = \$288,000
Discount campaigns	1. Promotion fee of campaign	\$30,000
Ambassadors promotion (5 times per year)	1. Public promotion team 2. Remuneration fee for Ambassadors 3. Advertising expenses	\$50,000 per promotional activity
Free samples (3 times per year)	1. Cost of goods 2. Promoting manpower	Cost of goods \$750,000 Promoting cost \$400,000
		Total <u>\$1,150,000</u>
Sponsorship	1. Sponsoring expenses	\$250,000
Micro films	1. Expenses for hiring film production companies	\$ 250,000
Total expenses		<u>\$8,153,000</u>

7.2 Income statement and expected return

The Indices of industrial production of Hong Kong⁷ in 2011 and 2012 are 95.7 and 94.9

⁷ Statistical Reports: Census and Statistics Department (3 rd quarter 2013): Quarterly Index of Industrial Production

respectively. Since the figure remains about the same, the turnover excluding the effect of our promoted strategies remains about the same. With the help of strategies, it is estimated for a slightly increment of 5% each year in the turnover. However, the financial statement of 2013 is not available. Therefore, the estimated initial turnover for the year 2014 will be \$140,000,000.

Budgeted Income statement for the year ended 31 December 2014 and 2015

	2014	2015
	HK\$'000	HK\$'000
Turnover	140,000	147,000
Other revenue (i)	900	700
Other net income (ii)	200	200
Changes in inventories of finished goods(iii)	2,250	1,800
Raw materials and consumables used (iv)	(32,200)	(33,810)
Staff costs(W1)	(26,622)	(26,622)
Depreciation expenses (v)	(2,200)	(1,500)
Net exchange gain (loss)	80	80
Other operating expenses (W2) (vi)	(38,529)	(34,000)
Profit from operations before fair value changes of financial assets through profit or loss and of investment properties	43,879	53,848
Net gain (loss) on financial assets at fair value through profit or loss	4200	4200
Revaluation surplus in respect of investment properties (vii)	27,000	27,000
Profit from operations	75,079	85,048
Finance costs	(1,100)	(1,100)
Profit before taxation	73,979	83,948

Refer to Appendices and reference for workings and remarks

7.3 Action plan

Tasks	Implementation plan	Method of evaluation	Success criteria	Department
Lucky draw	Print a QR code inside the package of the products, after the customers open the package, they can go to the website of Hoe Hin Pak Fah Yeow Manufactory Limited to register and join the lucky draw.	By checking the number of citizens visiting the website and joining the lucky draw.	The number of the citizens visiting the website and joining the lucky draw meets 5000	Information technology department
Phone and tablet application	Setting up an application, which called "Running Fuzai". In the game, there is a princess trapped in the castle, she will have different diseases or requirements. And Fuzai is required to search the corresponding products within the specified period to deal with the	By checking the click rates and the read of the application.	There are more than 10000 download of the application.	Information technology department

	illnesses. If he can save the princess, the player can go up to the next level.			
Stores in tourist attractions	The stores can be set in two tourist attractions which are Ngong Ping Village and Ocean park.	Observe the number of visitors of the two stores.	There are 3000 visitors each day.	Selling, Marketing, Operating and Human resources department
Vending machines	Vending machines can be set in five famous walled villages like Kat Hing Wai, Tsang Tai Uk, etc. and different islands in Hong Kong like Lamma island	Check and the count number remain in the machines every two months.	The inventory inside the machine is less than 10% of its capacity	Operating department
Discount campaign	At the end of the financial year, customers can buy one of the products of Hoe Hin Pak Fah Yeow Manufactory Limited and get another product free.	Give out questionnaire to investigate the efficiency of the campaign	The quantity of goods sold increased by 5%.	Marketing department
Ambassador	Taking photographs of the ambassadors and posting the posters in the MTR stations, drugstores, shopping malls and housing estates, etc.	By checking whether the number of turnover has increased or not.	The sales of the products can increase by 0.5% per month.	Public Relations department
Free sample	Apply to make a visit to elderly house during the Mid-Autumn Festival, Chinese New Year, Ching Ming festival. Promotion team will sent them samples during the visit	Survey is conducted among the customers who received samples	The survey shows that people start using the products after receiving samples	Marketing Public Relation
Sponsorship	We can sponsor the Standard Chartered Hong Kong Marathon, orientation camp of different universities.	Doing survey	Survey shows that people aware of the brand after participating the activity	Accounting, Public Relation department
Micro film	Hiring a film production crew, which helps produce the micro film that its theme is about Hoe Hin Pak Fah Yeow Manufactory Limited. The film can be within 60 minutes, and to be posted on the website and YouTube, which it can be showed internationally.	By checking the number of views and the click rates of the micro films on the internet.	The number of views is higher than 1000000 and the number of people visiting the website increased by 100 per day	Public Relations department

8. Conclusion

In conclusion, we have achieved the ambition, which is to analyze and to orient the Hoe Hin Pak Fah Yeow Manufactory Limited and to provide feasible method to extend the business development of the company, of this report successfully

Appendices and reference

1. Information from National Bureau of Statistics of the People's Republic of China

年份	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
药材出口金额 (百万美元)	738.47	631.77	484.88	451.45	417.45	325.72	287.45	266.39	226.29	215.85
药材出口数量 (吨)	196,62 0.00	226,05 6.00	199,55 2.00	188,29 6.00	240,55 6.00	200,17 6.00	203,00 6.00	169,86 4.00	163,28 0.00	144,11 0.00

<http://data.stats.gov.cn/workspace/index;jsessionid=1BAB5F309ABFF72DA9BD8A615BD44AA6?m=hgnd>

2. Budgeted income statement (Workings and remarks)

Workings:

(W1) $24606(\text{value of 2012})+3,360,000*60\%=26622$

(W2) $32,392,000(\text{value of 2012})+250,000+250,000+1,150,000*3+50,000*5+30,000+288,000+3,360,000*40\%+75,000+200,000=38,529,000$

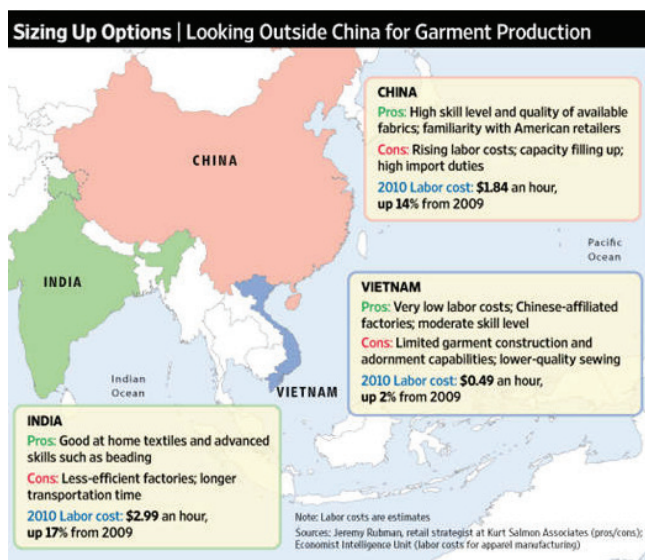
Remarks

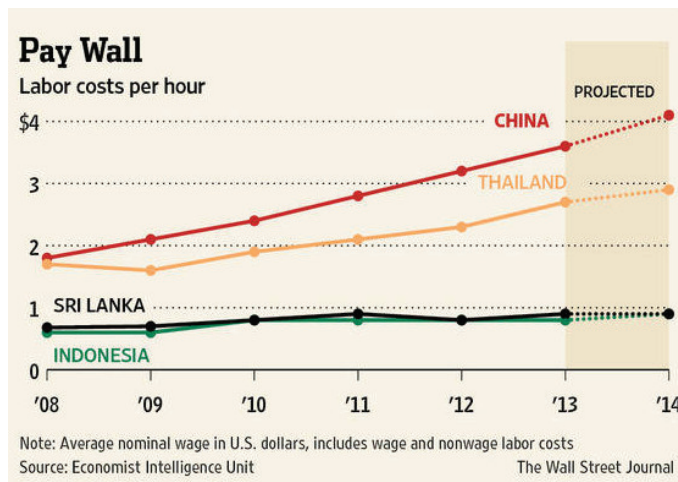
- i. Other revenue decreases for a prudence estimation.
- ii. This figures are assumed to remain unchanged. Values are based on the round-up value of the 2012 income statement.
- iii. The item decreased by 20% due to the improvement of selling strategies.
- iv Raw materials and consumables used: Turnover (2012)=0.23 The ratio will be maintained.
- v. Depreciation expenses decreases due to the assumption that reducing balance method is used
- vi. A stronger trade receivable control will be promoted to suppress the other operating expenses. It leads to the decrease in expenses.
- vii. The fair value of properties is assumed to rise in these two years

3. Picture to describe the idea of phone and tablet application strategy



4. Information refer to China Briefing Magazine and Daily News Service, May 20, 2011 (p.17 of the report)





Source

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