

LEVEL 7 ASSESSMENT SPECIFICATION

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Executive Summary

Chow Tai Fook, established in 1929, is a leader in the jewellery industry with a strong brand presence in Greater China and beyond. The company's revenue is primarily driven by its gold jewellery segment, which contributed 82.0% of total revenue in the fiscal year 2024. The company operates an extensive retail network and has introduced new product collections to adapt to changing consumer preferences.

The financial analysis highlights a gradual decline in Chow Tai Fook's bankruptcy Z-score, indicating increasing financial risk over time. The company's financial structure shows a balanced approach between fixed assets and long-term liabilities, though liquidity concerns have emerged. Comparatively, Luk Fook exhibits stronger financial health, while Tse Sui Luen faces significant financial distress.

Chow Tai Fook's corporate governance is robust, guided by its "4T" principles. However, areas for improvement include increasing board diversity, strengthening whistleblower protection, and enhancing transparency in ESG reporting.

The investment appraisal suggests that Chow Tai Fook's new outlet project is financially viable, with a positive NPV and IRR significantly exceeding the current interest rate. However, the payback period extends to five years, which may require reconsideration if faster returns are desired.

An action plan has been developed to address the identified financial and operational challenges, focusing on improving financial stability, operational efficiency, and corporate governance over the next four quarters.

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1. Introduction

The purpose of this report is to conduct a comprehensive financial and operational analysis of Chow Tai Fook Jewellery Group Limited, comparing its performance with two industry peers, Luk Fook Holdings and Tse Sui Luen Jewellery. Additionally, the report evaluates the corporate governance structure, internal control mechanisms, and risk management practices of Chow Tai Fook, proposing improvements for enhanced efficiency. Furthermore, an investment appraisal exercise and financing options analysis will be conducted to support strategic decision-making and fund-raising initiatives. Finally, a quarterly operational plan will be drafted to address identified financial issues and prioritize management actions for the upcoming year.

1.1 Company Background

Chow Tai Fook Jewellery Group Limited, a renowned Hong Kong-based company, is a leader in the jewellery industry, known for its high-quality craftsmanship and extensive product range. Established in 1929, the company has built a strong brand presence through its dedication to authenticity, innovation, and sustainability (Chow Tai Fook, nd). With a comprehensive portfolio that includes gold jewellery, gem-set jewellery, platinum, and K-gold jewellery, Chow Tai Fook has become a household name in Greater China and beyond. The company operates a vast network of retail outlets, strategically expanding its reach to include markets in Mainland China, Hong Kong, Macau, and other international locations (Chow Tai Fook, nd). Chow Tai Fook's commitment to excellence is evident in its stringent quality control processes, innovative product designs, and customer-centric approach.

1.2 Operating Business Overview

Chow Tai Fook Jewellery Group's operating business is segmented into various product categories, including gold jewellery and products, gem-set jewellery, platinum jewellery, and watches. The company's flagship products, particularly gold jewellery, account for a significant portion of its revenue, driven by their perceived value preservation and popularity among consumers (Chow Tai Fook, 2024). In the fiscal year 2024, gold jewellery and products contributed 82.0% to the company's revenue, highlighting the robust demand in this segment (Chow Tai Fook, 2024). The company has strategically introduced new product collections, such as the HUÁ Collection, to cater to evolving consumer preferences and enhance market penetration. Chow Tai Fook operates an extensive retail network across Mainland China, Hong Kong, Macau, and other international markets. The company's sales strategy includes both retail and wholesale channels, allowing it to reach a broad customer base.

1.3 Today's Business Environment

Chow Tai Fook navigates a dynamic business environment, influenced by macroeconomic and geopolitical factors. Despite uncertainties, the company remains optimistic due to strong domestic demand and a recovering tourism sector, particularly in Hong Kong and Macau (Chow Tai Fook, 2024). The rising middle class and increased spending in Southeast Asia, along with supportive Chinese government policies, are expected to fuel long-term growth (Chow Tai Fook, 2024). However, risks like fluctuating gold prices and evolving consumer preferences persist. To manage these, Chow Tai Fook prioritizes robust risk management, innovation, and strategic growth, focusing on sustainability and regulatory compliance to maintain competitiveness and achieve sustainable growth (Chow Tai Fook, 2024).

1.4 Company Structure

Chow Tai Fook Jewellery Group Limited operates with a strategic structure that enhances management efficiency and supports its diverse business activities across multiple regions and products. The Board of Directors oversees strategic direction, risk management, and governance, supported by various committees such as Nomination, Remuneration, Audit, Sustainability, and Strategy and Transformation (Chow Tai Fook, 2024). The Nomination Committee manages board nominations and performance evaluations, while the Remuneration Committee handles pay policies and advises on organizational structure and talent development (Chow Tai Fook, 2024). The Audit Committee ensures the integrity of financial reporting and risk management (Chow Tai Fook, 2024). The company also runs numerous subsidiaries and joint ventures in Mainland China, Hong Kong, Macau, and internationally, focusing on manufacturing, sales, and distribution of jewellery and related products, with subsidiaries like Shenzhen CTF Watch Company and Shenzhen Qianhai Chow Tai Fook Jewellery handling specific segments.

1.5 Research Comparison Company Information

Chow Tai Fook, Luk Fook, and Tse Sui Luen are prominent Asian jewelry firms, each with distinct market strategies and operational scales. Chow Tai Fook leads with 7,548 sales points globally, showcasing its vast network and market dominance (Chow Tai Fook, 2024). Luk Fook maintains a strong presence with 2,100 outlets (Luk Fook, 2024), while Tse Sui Luen focuses on craftsmanship and innovation across 500 outlets (Tse Sui Luen, 2024). Employment figures show Chow Tai Fook employing 30,000 people, Luk Fook 9,000, and Tse Sui Luen 1,800, reflecting their varying market influence (Chow Tai Fook, nd; Luk Fook, nd; Tse Sui Luen, nd). Financially, Chow Tai Fook leads with an annual revenue of HK\$108,713 million

for 2023-2024, significantly outpacing Luk Fook’s HK\$15,325 million and Tse Sui Luen’s HK\$2,655 million (Chow Tai Fook, 2024; Luk Fook, 2024; Tse Sui Luen, 2024). Each company’s core values support its unique business approach and customer engagement strategies. Overall, comparative analysis is provided in Table 1 below.

Table 1. Comparative analysis of companies

Attribute	Chow Tai Fook	Luk Fook	Tse Sui Luen
Market Presence	Extensive in Mainland China, Hong Kong, Macau, International	Strong in Mainland China, Hong Kong, Macau, Other regions	Focused in Mainland China, Hong Kong, Macau
Number of Retail Outlets	Over 7,548	Over 2,100	Around 500
Number of Employees	Approximately 30,000	Around 9,000	Approximately 1,800
Annual Revenue (2023-2024)	HK\$108,713 million	HK\$15,325 million	HK\$2,655 million
Establishment Year	1929	1991	1971
Core Values	Innovation, Sustainability, Customer-Centric	Integrity, Quality, Customer Satisfaction	Craftsmanship, Innovation, Customer Satisfaction

2. Financial Analysis

This section focuses on analysis of financial performance of Chow Tai Fook in comparison with its two competitors. The financial information for the companies was extracted from Yahoo Finance (2024a, 2024b, 2024c), which are provided in Appendix A.

2.1 Bankruptcy Z-Score Calculations

First, the financial analysis of Chow Tai Fook focuses on the analysis bankruptcy Z-score calculation and its comparison to the key competitors. The Bankruptcy Index Z-Score is a financial metric developed by Edward I. Altman to predict the likelihood of a company entering bankruptcy within the next two years by combining five financial ratios related to liquidity, profitability, leverage, solvency, and activity (Altman, 1968). A Z-Score greater than 2.99 indicates financial stability, while a score below 1.81 suggests a high probability of bankruptcy (Altman, 1968). The Z-score formula is provided below:

$$Z = 1.2A + 1.4B + 3.3C + 0.6D + 0.999E$$

The financial data used to calculate the Z-score is provided in Table 2 below

Table 2. Financials for Z-score of Chow Tai Fook

Financial Metric	2022 (HK\$,000)	2023 (HK\$,000)	2024 (HK\$,000)
Working Capital	33,510,300	32,331,100	25,690,000
Total Assets	87,737,300	87,340,500	88,819,000
Retained Earnings	6,712,300	5,384,400	6,499,300
EBIT	8,592,100	7,563,900	9,071,700
Market Value of Equity	141,000,000	155,800,000	115,850,000
Total Liabilities	53,182,600	53,980,700	62,073,400
Sales (Total Revenue)	98,397,700	94,684,400	108,713,000

The Z-score calculations are provided in Table 3 below.

Table 3. Z-score calculations for Chow Tai Fook

Year	A	B	C	D	E	Z-Score Calculation	Z-Score
2022	33,510,300 / 87,737,300 = 0.382	6,712,300 / 87,737,300 = 0.077	8,592,100 / 87,737,300 = 0.098	141,000,000 / 53,182,600 = 2.652	98,397,700 / 87,737,300 = 1.121	1.2(0.382) + 1.4(0.077) + 3.3(0.098) + 0.6(2.652) + 0.999(1.121)	5.13
2023	32,331,100 / 87,340,500 = 0.370	5,384,400 / 87,340,500 = 0.062	7,563,900 / 87,340,500 = 0.087	155,800,000 / 53,980,700 = 2.886	94,684,400 / 87,340,500 = 1.084	1.2(0.370) + 1.4(0.062) + 3.3(0.087) + 0.6(2.886) + 0.999(1.084)	5.39
2024	25,690,000 / 88,819,000 = 0.289	6,499,300 / 88,819,000 = 0.073	9,071,700 / 88,819,000 = 0.102	115,850,000 / 62,073,400 = 1.867	108,713,000 / 88,819,000 = 1.224	1.2(0.289) + 1.4(0.073) + 3.3(0.102) + 0.6(1.867) + 0.999(1.224)	4.53

The calculations demonstrate a gradual decline in the bankruptcy Z-score of Chow Tai Fook, which may be concerning for the company's shareholders. However, before arriving at any conclusions, it is crucial to compare the company's performance to the competitors. The calculations of Z-scores are provided in Table 4 and 5 below.

Table 4. Calculations of Z-scores for Luk Fook.

Year	A	B	C	D	E	Z-Score Calculation	Z-Score
2022	9,093,420 / 16,220,269 = 0.561	1,392,364 / 16,220,269 = 0.086	1,642,569 / 16,220,269 = 0.101	11,125,679,463 / 4,141,741,000 = 2.687	11,737,803 / 16,220,269 = 0.724	1.2(0.561) + 1.4(0.086) + 3.3(0.101) + 0.6(2.687) + 0.999(0.724)	5.25
2023	9,506,472 / 14,928,506 = 0.637	1,284,757 / 14,928,506 = 0.086	1,527,497 / 14,928,506 = 0.102	14,946,016,005 / 2,707,564,000 = 5.521	11,977,844 / 14,928,506 = 0.802	1.2(0.637) + 1.4(0.086) + 3.3(0.102) + 0.6(5.521) + 0.999(0.802)	7.13
2024	8,815,499 / 16,854,064 = 0.523	1,767,305 / 16,854,064 = 0.105	2,003,068 / 16,854,064 = 0.119	12,569,945,994 / 3,990,166,000 = 3.152	15,325,962 / 16,854,064 = 0.910	1.2(0.523) + 1.4(0.105) + 3.3(0.119) + 0.6(3.152) + 0.999(0.910)	6.12

Table 5. Calculations of Z-scores for TseSui Luen

Year	A	B	C	D	E	Z-Score Calculation	Z-Score
2022	764,697 / 2,707,167 = 0.282	15,546 / 2,707,167 = 0.006	86,285 / 2,707,167 = 0.032	261,641 / 1,659,122 = 0.158	2,767,788 / 2,707,167 = 1.022	1.2(0.282) + 1.4(0.006) + 3.3(0.032) + 0.6(0.158) + 0.999(1.022)	1.74
2023	1,087,532 / 2,844,218 = 0.383	-71,435 / 2,844,218 = -0.025	-4,860 / 2,844,218 = -0.002	336,396 / 1,950,754 = 0.172	2,590,936 / 2,844,218 = 0.911	1.2(0.383) + 1.4(-0.025) + 3.3(-0.002) + 0.6(0.172) + 0.999(0.911)	1.17
2024	639,046 / 2,361,272 = 0.271	-374,198 / 2,361,272 = -0.159	-271,656 / 2,361,272 = -0.115	211,805 / 1,808,310 = 0.117	2,654,627 / 2,361,272 = 1.124	1.2(0.271) + 1.4(-0.159) + 3.3(-0.115) + 0.6(0.117) + 0.999(1.124)	0.75

The comparative analysis of the companies' z-scores is visualised in Figure 1 below.

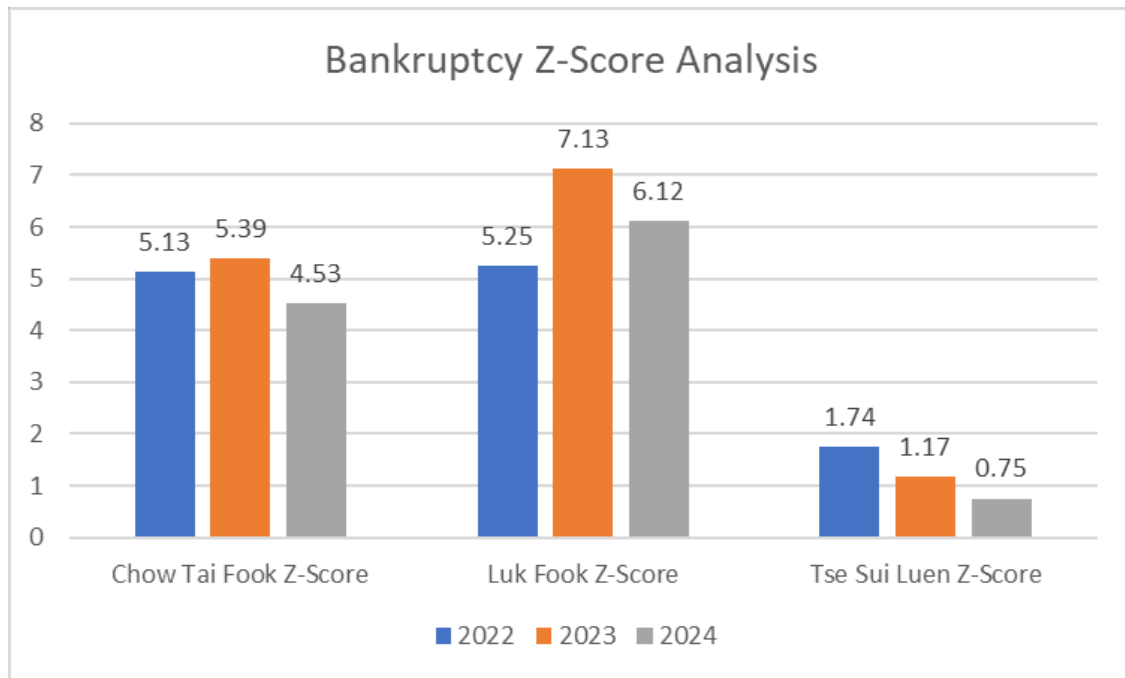


Figure 1. Bankruptcy Z-score Analysis

The comparative analysis demonstrates that Chow Tai Fook's financial performance, as indicated by its Z-Scores (5.13 in 2022, 5.39 in 2023, and 4.53 in 2024), shows strong financial stability with a slight downward trend, suggesting increasing financial risk over time. Comparatively, Luk Fook consistently outperformed Chow Tai Fook, while Tse Sui Luen, exhibited significantly lower Z-Scores.

2.2 Financial Structure

Analysis of financial structures of firms is crucial to determine if they are using adequate combinations of equity and debt to finance their operations. Financial structure is visualised in Table 6 below.

Table 6. Financial structure ratios

Company	Ratio	2022	2023	2024
Chow Tai Fook	Fixed assets to long term liabilities	2.71	3.4	2.12
	Current liabilities to Stock ratio	1.48	1.57	2.24
	Current Liabilities	49,629,400	51,021,500	57,520,400
Luk Fook	Fixed assets to long term liabilities	13.8	12.26	9.55
	Current liabilities to Stock ratio	0.32	0.2	0.27
	Current Liabilities	3,908,586	2,466,431	3,516,809
Tsai Sui Luen			0.72	
	Fixed assets to long term liabilities	4.22		0.85
	Current liabilities to Stock ratio	1.5	1.41	2.23
	Current Liabilities	1,571,121,000	1,259,588,000	1,233,606,000

Chow Tai Fook's financial structure reveals a balanced approach between fixed assets and long-term liabilities, with ratios decreasing from 2.71 in 2022 to 2.12 in 2024. This suggests moderate long-term debt management supported by fixed assets. However, the increasing current liabilities to stock ratio, rising from 1.48 in 2022 to 2.24 in 2024, indicates growing inventory pressure relative to short-term obligations, potentially signalling tightening liquidity. Comparatively, Luk Fook exhibits a much stronger position, with fixed assets to long-term liabilities ratios ranging from 13.80 in 2022 to 9.55 in 2024, reflecting substantial asset management and superior liquidity, as indicated by its lower current liabilities to stock ratio (Ross, Westerfield, and Jordan, 2019; Brealey, Myers, and Allen, 2020). In contrast, Tse Sui Luen's sharp decline in the fixed assets to long-term liabilities ratio, from 4.22 in 2022 to 0.85 in 2024, alongside an increasing current liabilities to stock ratio, indicates financial instability. This could lead to challenges in securing financing and sustaining operations (Brigham and Ehrhardt, 2021). These findings suggest that while Luk Fook is well-positioned, Chow Tai Fook and Tse Sui Luen may need strategic adjustments to improve financial resilience and long-term viability.

2.3 Paying Debt Ability

The financial stability of a company, crucial for attracting investment, hinges on its ability to manage both short-term and long-term debt. Brealey et al. (2020) emphasize that investors scrutinize these capabilities to gauge investment risk. This assessment focuses on Chow Tai Fook's debt management compared to its competitors, using liquidity and solvency ratios. Over time, Chow Tai Fook's liquidity has declined, with the current ratio dropping from 157.42% in 2022 to 137.66% in 2024, and the cash ratio falling sharply from 30.11% to 13.38%, signaling weaker short-term financial health. The debt-to-equity ratio worsened from 1.58 to 2.41, indicating increased reliance on debt. Conversely, Luk Fook maintained robust liquidity, with a current ratio above 300% and a cash ratio of 55% in 2024, alongside a stable low debt-to-equity ratio of 0.31. Tse Sui Luen, though more volatile, shows a concerning rise in debt-to-equity ratio from 1.58 in 2022 to 3.27 in 2024, reflecting greater financial risk.

The declining liquidity ratios for Chow Tai Fook, combined with its increasing reliance on debt, suggest that the company may face growing financial strain, potentially impacting its ability to fund operations and invest in growth. In contrast, Luk Fook's stronger liquidity and lower debt levels indicate a more sustainable financial position, allowing it to better withstand economic fluctuations (Brigham and Houston, 2019). Tse Sui Luen's higher volatility and increased leverage further heighten its financial risk, which could lead to difficulties in

maintaining operational stability if market conditions deteriorate (Higgins, 2022). Table 7 below summarises the companies' ability to pay debt.

Table 7. Ability to pay debt ratios

Company	Ratio	2022	2023	2024
Chow Tai Fook	Current ratio	157.42%	151.44%	137.66%
	Quick Ratio	42.05%	35.23%	25.27%
	cash ratio	30.11%	23.00%	13.38%
	Total Debt Ratio	60.62%	61.80%	69.89%
	Debt/equity ratio	1.58	1.67	2.41
	long term debt ratio	2.04%	1.70%	3.76%
	total debt/fixed asset ratio	5.53	5.36	6.44
	Times interest Earned	19.88	9.20	9.22
Luk Fook	Current ratio	332.65%	485.43%	350.67%
	Quick Ratio	110.61%	126.51%	78.63%
	cash ratio	89.34%	95.18%	55.00%
	Total Debt Ratio	25.53%	18.14%	23.67%
	Debt/equity ratio	0.34	0.22	0.31
	long term debt ratio	0.94%	0.99%	1.90%
	total debt/fixed asset ratio	1.29	0.92	0.88
	Times interest Earned	60.28	61.88	29.65
Tse Sui Luen	Current ratio	148.67%	186.34%	151.80%
	Quick Ratio	61.51%	69.65%	50.21%
	cash ratio	46.92%	27.65%	14.59%
	Total Debt Ratio	61.29%	68.59%	76.58%
	Debt/equity ratio	1.58	2.18	3.27
	long term debt ratio	2.26%	21.16%	20.82%
	total debt/fixed asset ratio	4.47	3.92	3.70
	Times interest Earned	0.49	-1.18	-4.44

2.4 Operating Capacity

Operating capacity demonstrates how efficiently a company uses its assets to generate sales and income. Chow Tai Fook's operating capacity was analysed using three ratios, including return on assets (ROA), return on equity (ROE), and asset turnover ratio, and comparing these ratios to the competitors. Table 8 below visualises the companies' performance in term of efficiency ratios.

Table 8. Operating ratios

Company	Ratio	2022	2023	2024
Chow Tai Fook	Return on Assets (ROA)	0.10	0.09	0.10
	Return on Equity (ROE)	0.26	0.23	0.35
	Asset Turnover Ratio	1.12	1.08	1.22
Luk Fook	Return on Assets (ROA)	0.10	0.10	0.12
	Return on Equity (ROE)	0.14	0.12	0.16
	Asset Turnover Ratio	0.72	0.80	0.91
Tse Sui Luen	Return on Assets (ROA)	0.03	-0.002	-0.12
	Return on Equity (ROE)	0.08	-0.01	-0.49
	Asset Turnover Ratio	1.02	0.91	1.12

Chow Tai Fook's operating efficiency, as evidenced by its financial metrics, shows a stable yet moderate performance. The company's ROA remained steady at 0.10 across the years, indicating consistent but average asset utilization. ROE for Chow Tai Fook, however, significantly improved from 0.26 in 2022 to 0.35 in 2024, highlighting an increase in profitability relative to shareholders' equity, possibly due to better operational management or effective use of leverage (Dallocchio et al., 2017). Additionally, Chow Tai Fook's asset turnover ratio increased slightly from 1.12 in 2022 to 1.22 in 2024, suggesting that the company is becoming more efficient in generating revenue from its assets.

In comparison, Luk Fook demonstrates a slightly better asset management capability, with its ROA improving from 0.10 to 0.12 and its asset turnover ratio also rising from 0.72 to 0.91 over the same period. However, Luk Fook's ROE, which increased modestly to 0.16 in 2024, remains lower than Chow Tai Fook's, indicating that while Luk Fook is efficient in using its assets, it is less effective in maximizing shareholder returns. On the other hand, Tse Sui Luen's negative ROA and ROE in 2023 and 2024 reflect serious operational inefficiencies and potential financial distress. Despite an improved asset turnover ratio, these negative returns suggest that the company is struggling to generate profits from its operations.

For Chow Tai Fook, the consistent ROA and the notable improvement in ROE suggest solid operational performance and effective financial management, positioning it ahead of Luk Fook in terms of shareholder returns. However, Tse Sui Luen's declining metrics underscore the importance of sustaining operational efficiency to remain competitive in the market (Brigham and Ehrhardt, 2021).

2.5 Profitability

Profitability is often considered one of the most important financial metrics, that is often measured using gross profit margin, operating profit margin, and net profit margin. These ratios of the three companies are provided in Table 9 below.

Table 9. Profitability ratios

	Ratio	2022	2023	2024
Chow Tai Fook	Gross Profit Margin	22.76%	22.36%	20.50%
	Operating Profit Margin	8.73%	7.99%	8.34%
	Net Profit Margin	6.82%	5.69%	5.98%
Luk Fook	Gross Profit Margin	27.55%	26.97%	27.24%
	Operating Profit Margin	13.99%	12.75%	13.07%
	Net Profit Margin	11.86%	10.73%	11.53%
Tse Sui Luen	Gross Profit Margin	38.40%	35.08%	29.60%
	Operating Profit Margin	3.12%	-0.19%	-10.23%
	Net Profit Margin	0.56%	-2.76%	-14.10%

Chow Tai Fook's profitability metrics show a moderate decline over the years. The Gross Profit Margin fell from 22.76% in 2022 to 20.50% in 2024, indicating pressure on the company's ability to generate profit from sales. Similarly, the Operating Profit Margin slightly decreased from 8.73% to 8.34%, reflecting stable but strained operational efficiency. The Net Profit Margin also dropped from 6.82% to 5.98%, suggesting that overall profitability is impacted by rising costs or slower revenue growth.

In comparison, Luk Fook demonstrates stronger profitability, with its Gross Profit Margin consistently above 27%, and its Operating Profit Margin improving to 13.07% in 2024. Luk Fook's Net Profit Margin, although dipping in 2023, recovered to 11.53% in 2024, indicating better cost management and profit generation compared to Chow Tai Fook. Tse Sui Luen shows a concerning decline in profitability, with its Gross Profit Margin falling from 38.40% in 2022 to 29.60% in 2024, and both Operating and Net Profit Margins turning negative. This suggests significant operational challenges, potentially threatening the company's financial sustainability.

Overall, while Chow Tai Fook maintains profitability, the declining margins suggest that it faces increasing pressure on its cost structure or competitive pricing. Luk Fook's relatively stable profitability positions it well against Chow Tai Fook, indicating more efficient cost management. In contrast, Tse Sui Luen's declining profitability underscores significant financial distress, which could threaten its sustainability without substantial strategic intervention.

2.6 Growth Capacity

Chow Tai Fook's growth capacity, marked by a strong recovery in 2023 and 2024, contrasts with its competitors Luk Fook and Tse Sui Luen. Chow Tai Fook's revenue grew by 14.82% in 2024, recovering from a 3.77% decline in 2022, while net income surged by 20.71% in 2024, reflecting robust profitability. However, the company's equity declined by 20.63% in 2023 and continued to fall in 2024, suggesting increasing reliance on debt financing.

In comparison, Luk Fook experienced steady revenue growth, with a notable 27.95% increase in 2024, and consistent net income growth of 37.56%, indicating strong financial performance. Luk Fook's total assets and equity both showed positive growth, with equity increasing by 5.26% in 2024, highlighting its stable financial foundation and effective use of resources. Tse Sui Luen, on the other hand, faced severe challenges, with a drastic 423.83% decline in net income in 2024 and a 38.11% drop in equity, indicating financial distress. Although Tse Sui Luen's revenue grew slightly in 2024, the company's negative net income and declining equity suggest significant operational and financial difficulties. Overall, while

Chow Tai Fook shows strong growth potential, Luk Fook outperforms it with more stable equity growth, and Tse Sui Luen struggles with severe financial instability.

The overview of the growth in these metrics is provided in Table 10 below.

Table 10. Growth capacity table (in HK\$,000)

Company	Metric	2022	Net Growth	% Growth	2023	Net Growth	% Growth	2024
Chow Tai Fook	Revenue	98,397,700	-3,713,300	-3.77%	94,684,400	14,028,600	14.82%	108,713,000
	Net Income	6,712,300	-1,327,900	-19.78%	5,384,400	1,114,900	20.71%	6,499,300
	Total Assets	87,737,300	-396,800	-0.45%	87,340,500	1,478,500	1.69%	88,819,000
	Equity	33,619,300	-1,221,900	-3.63%	32,397,400	-6,682,400	-20.63%	25,715,000
Luk Fook	Revenue	11,737,803	240,041	2.05%	11,977,844	3,348,118	27.95%	15,325,962
	Net Income	1,392,364	-107,607	-7.73%	1,284,757	482,548	37.56%	1,767,305
	Total Assets	16,220,269	-1,291,763	-7.96%	14,928,506	1,925,558	12.90%	16,854,064
	Equity	12,078,996	141,946	1.18%	12,220,942	642,956	5.26%	12,863,898
Tse Sui Luen	Revenue	2,767,788	-176,385	-6.39%	2,590,936	1,114,900	2.46%	2,654,627
	Net Income	15,546	-86,981	-559.51%	-71,435	-302,763	-423.83%	-374,198
	Total Assets	2,707,167	137,051	5.06%	2,844,218	-482,946	-16.98%	2,361,272
	Equity	1,048,045	-154,581	-14.75%	893,464	-340,502	-38.11%	552,962

2.7 Stock Market Prospect Analysis

Stock market prospects were analysed using investment ratios, including earnings per share (EPS) and price-to-earnings (P-E) ratios. The comparative analysis is provided in Table 11 below.

Table 11. Investment ratio analysis

Company	Ratio	2022	2023	20.24
Chow Tai Fook	EPS	0.67	0.54	0.65
	P/E	21.01	28.94	17.83
Luk Fook	EPS	2.37	2.19	3.01
	P/E	8.00	11.63	7.11
Tse Sui Luen	EPS	0.06	-0.29	-1.50
	P/E	16.83	-4.71	-0.57

Chow Tai Fook's attractiveness for investors, as indicated by its Earnings Per Share (EPS) and Price-to-Earnings (P/E) ratio, presents a mixed picture. In 2022, Chow Tai Fook had an EPS of 0.67 and a P/E ratio of 21.01, suggesting that the market valued its earnings relatively highly. However, the P/E ratio spiked to 28.94 in 2023, despite a drop in EPS to 0.54, indicating that the stock may have been overvalued at that time. By 2024, the EPS recovered to 0.65, and the P/E ratio adjusted to 17.83, reflecting a more balanced valuation, though still relatively high compared to competitors.

Luk Fook, on the other hand, demonstrated more stable and attractive investment metrics. Its EPS, while higher than Chow Tai Fook's, showed a steady performance, increasing from 2.37 in 2022 to 3.01 in 2024. Luk Fook's P/E ratio remained lower, dropping to 7.11 in 2024, indicating that the stock was potentially undervalued, making it a more attractive investment opportunity in terms of earnings potential. Tse Sui Luen, however, appears to be struggling, with negative EPS in both 2023 and 2024 and a negative P/E ratio, reflecting poor profitability and a lack of investor confidence. The negative P/E indicates that the company is not generating sufficient earnings to justify its market valuation, making it a risky investment. Overall, while Chow Tai Fook offers moderate attractiveness to investors, Luk Fook presents a stronger and more stable investment opportunity, whereas Tse Sui Luen's negative financial metrics suggest significant risks.

3. Company's Corporate Governance Assessment

3.1 Corporate Governance of Business Organisation and Its Importance

Corporate governance is the framework of rules, relationships, systems, and processes within and by which authority is exercised and controlled in corporations. It influences how the objectives of the company are set and achieved, how risk is monitored and assessed, and how performance is optimized. Effective corporate governance ensures that companies operate with integrity, transparency, and accountability, safeguarding the interests of all stakeholders, including shareholders, employees, customers, and the community. The importance of corporate governance cannot be overstated, as it provides a structure that guides the company towards achieving its goals while mitigating risks. For example, companies with strong governance are better positioned to identify and manage risks, which can lead to enhanced financial performance and investor confidence.

Moreover, good governance practices can prevent corporate scandals and fraud, which can have devastating effects on a company's reputation and financial standing. Corporate governance also plays a crucial role in fostering ethical behavior and corporate social responsibility, ensuring that the company operates in a manner that is sustainable and beneficial to society. Overall, effective corporate governance is essential for the long-term success and sustainability of a business, as it provides the foundation for sound decision-making, strategic planning, and risk management.

3.2 Company Existing Corporate Governance

Chow Tai Fook has established a robust corporate governance framework that aligns with its commitment to transparency, accountability, and sustainable growth. The company's governance structure is built on its "4T" principles—Transparent, Thoughtful, Truthful, and Traceable—which guide its operations and interactions with stakeholders. The company has fully complied with the Corporate Governance Code as set out in Appendix C1 to the Listing Rules, demonstrating its adherence to the highest standards of governance practices. The board of directors, which is at the core of Chow Tai Fook's governance framework, is responsible for overseeing the company's strategic direction, risk management, and overall governance policies.

The board is supported by key committees, including the Audit Committee, Nomination Committee, and Remuneration Committee, each of which plays a vital role in ensuring the company's financial integrity, managing risks, and overseeing executive compensation. The Audit Committee, for instance, is tasked with monitoring the company's financial reporting processes and ensuring the accuracy and reliability of its financial statements. The Nomination

Committee is responsible for evaluating the composition of the board and recommending new members who possess the necessary skills and experience to contribute to the company's strategic objectives. The Remuneration Committee oversees the development and implementation of fair and transparent executive compensation policies that align with the company's long-term goals. Through these structures, Chow Tai Fook ensures that its governance practices are aligned with industry best practices and that it remains accountable to its stakeholders.

3.3 Suggestion for Improvement

While Chow Tai Fook has a strong corporate governance framework in place, there are areas where improvements could further enhance its effectiveness. First, increasing the diversity of the board of directors is crucial. A more diverse board, in terms of gender, ethnicity, and professional background, can bring a wider range of perspectives and experiences to the decision-making process, leading to more innovative and effective strategies (Adams and Ferreira, 2009). This diversity can also enhance the company's ability to navigate complex global markets and respond to the needs of a diverse customer base (Carter, Simkins, and Simpson, 2003). Second, Chow Tai Fook should consider strengthening its whistle-blower protection mechanisms. Ensuring that employees feel safe and protected when reporting unethical or illegal activities is critical for maintaining a culture of integrity and transparency (Miceli, Near, and Dworkin, 2008). This could involve implementing more robust policies and procedures for handling whistle-blower reports, as well as providing regular training to employees on their rights and protections (Callahan and Dworkin, 1994).

Third, the company could benefit from adopting more rigorous performance metrics for executive compensation. Linking executive pay more closely to long-term performance and shareholder value creation can help align the interests of management with those of the shareholders, reducing the risk of short-termism in decision-making (Jensen and Murphy, 1990). Finally, enhancing transparency in reporting, particularly with regard to environmental, social, and governance (ESG) practices, could improve stakeholder trust and align Chow Tai Fook with global best practices (Eccles, Ioannou, and Serafeim, 2014). This could involve providing more detailed disclosures on the company's sustainability initiatives, as well as setting clear targets and benchmarks for ESG performance. By addressing these areas, Chow Tai Fook can strengthen its corporate governance and ensure its continued success and sustainability in the long term.

4. Investment Appraisal

4.1 Project Basic Information

The project is strategically positioned to capitalize on increasing consumer demand. This new location is expected to yield 150% from the average revenue generated by existing outlets, contributing significantly to the company's overall growth. Moreover, the operating costs are expected to be twice as low in comparison with average operating expenses. The decision to invest is grounded in the potential to achieve higher profitability through efficient operations, as the operating costs are projected to be lower than the average for similar outlets. The initial capital outlay for this project, calculated as 5% of the last fiscal year's revenue, will be **HK\$5,435,650,000**. This amount is justified by the anticipated steady revenue increase, which is expected to reach over **HK\$831,643,000** in monthly revenue by the 12th month of operation. The outlet will enhance Chow Tai Fook's market presence and cater to a wider customer base. The assumptions of the project are provided in Table 12 below.

Table 12. Project assumptions

Item	Estimated Cost (HK\$)	Method of Calculation	Justification
Initial Investment	5,435,650,000	5% of last fiscal year's revenue	Reflects the capital required to establish the new outlet.
Investment in Non-current Assets	589,752,000	Total initial investment * (Non-current assets FY 2023-2024 / Total Assets FY 2023-2024)	Supports long-term asset creation necessary for operations.
Investment in Working Capital (Recovered After 5 Years)	4,845,898,000	Total investment - investment in non-current assets	Ensures liquidity and operational efficiency.
Monthly Revenue at Start of Operations	200,000	Estimation. The revenue will increase on a straight line, reaching the assumed monthly revenue on month 12	Reflects a conservative initial revenue, expected to grow steadily.
Projected Monthly Revenue on Month 12 and Further	831,643,000	Asset turnover ratio * Initial investment / 12 months * 1.5	Revenue is expected to double that of an average outlet.
Cost of Goods Sold (COGS)	Varies with Revenue	Revenue * 79.50%	Based on industry standard and historical company margins
Operating Costs	Varies with Revenue	Revenue * 6.08%	Assumes efficient operations with reduced costs.
Effective Tax Rate	16.50%	HK Tax rate	Reflects the current HK tax rate
Annual Sales Growth Rate	14.82%	Revenue growth rate between 2024 and 2023	Assumes consistent growth based on historical data.
Annual Depreciation	117,950,000	Investment in non-current assets / Project's life (5 years)	Assumes straight line depreciation over the project's lifespan.
Cash Period	24	Inventory (in day) + Account receivable (in day) - Account payable (in day)	Assumes payment to creditor is 270 days.
Cash on Hand	Varies with Revenue	Revenue * Cash Period / 365	Reflects the cash on hand based on revenue to determine the annual cash flow.

4.2 First Year Calculation of Sales

The first-year revenue is expected to be lower than that of all the following years, as it is assumed that the efficiency of asset use of the new outlet is expected to grow gradually, reaching its maximum efficiency during Month 12 of Year 1. Table 13 below provides a breakdown of monthly revenues.

Table 13. Monthly revenues during Year 1

Month	Revenue (HK\$,000)	Calculation
Month 1	200,000	Estimated starting monthly revenue
Month 2	257,422	Linear growth: Month 1 Revenue + Increment based on trend
Month 3	314,844	Linear growth: Month 2 Revenue + Increment based on trend
Month 4	372,266	Linear growth: Month 3 Revenue + Increment based on trend
Month 5	429,688	Linear growth: Month 4 Revenue + Increment based on trend
Month 6	487,111	Linear growth: Month 5 Revenue + Increment based on trend
Month 7	544,533	Linear growth: Month 6 Revenue + Increment based on trend
Month 8	601,955	Linear growth: Month 7 Revenue + Increment based on trend
Month 9	659,377	Linear growth: Month 8 Revenue + Increment based on trend
Month 10	716,799	Linear growth: Month 9 Revenue + Increment based on trend
Month 11	774,221	Linear growth: Month 10 Revenue + Increment based on trend
Month 12	831,643	Target revenue reached, based on the projected end of year goal

The analysis table for the monthly revenues is provided in Table 14 below.

Table 14. Analysis table for monthly revenues during first year

Analysis	
Month 1	200,000
Month 12	831,643
Linear Trend	57,422
Formula used	$(\text{Month 12} - \text{Month 1}) / 11$

Overall, during the first year of sales, the new outlet is expected to generate a total revenue of HK\$6,189,860,000.

4.4 Monthly Cashflow Calculation

Cashflow was calculated using the project assumptions provided in Table 12. First, Year 1 monthly cashflow were calculated, and then annual cashflows were estimated using the formulas provided in Table 15 below.

Table 15. Calculation table for cashflows

Item	Calculation Method	Explanation
Revenue	Starting revenue in Month 1 (HK\$200,000) with linear growth over 12 months to reach HK\$831,643,000 in Month 12.	The revenue increases each month by a fixed increment, reflecting the gradual market penetration and sales growth.
	Year 1 revenue = Sum of monthly revenues	The overall revenue for Year 1 was calculated as a sum of all monthly revenues.
	Year 2-5 revenues = 12 * HK\$831,643,000	The revenues for Year 2-5 were calculated by multiplying projected monthly revenues by 12 (number of months).
COGS	Revenue * COGS Rate (79.5%)	COGS is calculated as 79.5% of the revenue for each month, based on the industry standard and company historical data.
Operating Expenses	Revenue * Operating Cost Rate (6.08%)	Operating expenses are estimated as 8.10% of revenue for each month, reflecting the operational efficiency of the new outlet.
EBIT	Revenue - COGS - Operating Expenses	EBIT is derived by subtracting COGS and Operating Expenses from Revenue, indicating the operating profit before tax and interest.
Tax	EBIT * Effective Tax Rate (16.50%)	The tax expenses is calculated by multiplying the EBIT by the effective tax rate reflecting the overall tax regime for the company.
Annual Cashflow	EBIT - Tax - Investment - Cash on hand	Annual cashflow is derived by subtracting the tax, investment (if any) from EBIT and cash on hand.

The first-year cashflow breakdown is provided in Table 16 below.

Table 16. Year 1 cashflows analysis table

First Year Monthly Cashflows (in HK\$,000)													
	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Year 1
Revenue	200,000	257,422	314,844	372,266	429,688	487,111	544,533	601,955	659,377	716,799	774,221	831,643	6,189,860
COGS	159,002	204,653	250,305	295,956	341,607	387,258	432,909	478,561	524,212	569,863	615,514	661,165	4,921,005
Operating Expenses	12,154	15,644	19,134	22,623	26,113	29,602	33,092	36,582	40,071	43,561	47,051	50,540	376,167
EBITDA	28,844	37,125	45,406	53,687	61,969	70,250	78,531	86,813	95,094	103,375	111,656	119,938	892,688
Cash on hand	33,917	33,917	33,917	33,917	33,917	33,917	33,917	33,917	33,917	33,917	33,917	33,917	407,004

Annual cashflows are provided in Table 17 below.

Table 17. Annual cashflows of five years of operations analysis table

Annual Cashflow (in HK\$,000)					
	Year 1	Year 2	Year 3	Year 4	Year 5
Revenue	6,189,860	7,106,960	8,159,939	9,368,929	10,757,046
COGS	-4,921,005	-5,650,109	-6,487,239	-7,448,399	-8,551,967
Operating Expenses	-376,167	-431,900	-495,892	-569,364	-653,722
EBITDA	892,688	1,024,950	1,176,808	1,351,166	1,551,357
Cash on hand	407,004	467,307	536,544	616,039	707,313

4.3 Tax Calculation

The effective tax rate for the company was 16.5%, which is the corporate tax rate in Hogg Kong. The tax expense was calculated taking into consideration depreciation calculated in Table 12 with basic assumptions of the project. Table 18 below provides a breakdown of tax calculations for annual cashflows.

Table 18. Analysis and calculation table

Annual Cashflow (in HK\$,000)					
	Year 1	Year 2	Year 3	Year 4	Year 5
Revenue	6,189,860	7,106,960	8,159,939	9,368,929	10,757,046
COGS	-4,921,005	-5,650,109	-6,487,239	-7,448,399	-8,551,967
Operating Expenses	-376,167	-431,900	-495,892	-569,364	-653,722
EBITDA	892,688	1,024,950	1,176,808	1,351,166	1,551,357
Depreciation	117,950	117,950	117,950	117,950	117,950
EBIT	774,738	907,000	1,058,858	1,233,216	1,433,407
Tax	-127,832	-149,655	-174,712	-203,481	-236,512

The overall analysis of cashflows after including tax and recover of the initial investment in working capital is provided in Table 19 below.

Table 19. Final annual cashflows

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Initial investment	-5,435,650					
Revenue		6,189,860	7,106,960	8,159,939	9,368,929	10,757,046
COGS		-4,921,005	-5,650,109	-6,487,239	-7,448,399	-8,551,967
Operating Expenses		-376,167	-431,900	-495,892	-569,364	-653,722
EBITDA		892,688	1,024,950	1,176,808	1,351,166	1,551,357
Depreciation		117,950	117,950	117,950	117,950	117,950
EBIT		774,738	907,000	1,058,858	1,233,216	1,433,407
Tax		-127,832	-149,655	-174,712	-203,481	-236,512
Profit after tax		646,906	757,345	884,146	1,029,735	1,196,895
Add back depreciation		117,950	117,950	117,950	117,950	117,950
Recover of working capital						4,845,898
Annual Cashflow	-5,435,650	357,852	407,988	465,553	531,647	5,453,431
Cash on hand		407,004	467,307	536,544	616,039	707,313
Cash period		24	24	24	24	24
Cumulative Cashflow	-5,435,650	-5,077,798	-4,669,810	-4,204,257	-3,672,610	1,780,820

4.5 NPV and ARR

NPV and ARR are crucial metrics that help to help the make a decision concerning taking up a project. Table 20 below demonstrates how NPV was calculated with interest rate (r) of 5%.

Table 20. NPV calculation table

Explanation	Annual CashFlow = Profit after tax + depreciation - Cash on Hand					
	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Annual Cashflow	-5,435,650	357,852	407,988	465,553	531,647	5,453,431
NPV	387,673					

Table 21 below demonstrates how the ARR was calculated.

Table 21. ARR calculation

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Initial investment	-5,435,650					
Annual Cashflow		357,852	407,988	465,553	531,647	5,453,431
ARR	26.55%					

The analysis table of NPV is provided in Table 22 below.

Table 22. Analysis of NPV and ARR

	Estimation	Analysis
Net Present Value (NPV)	HK\$387,673	The NPV represents the difference between the present value of cash inflows and outflows over the project's life. A positive NPV indicates the project is expected to generate more value than the cost of the investment, making it financially viable. This positive NPV suggests that the project will add value to the company and is worth pursuing
Average Rate of Return (ARR)	26.55%	The ARR measures the expected profitability of the project by comparing the average annual profit to the initial investment. An ARR of 26.55% which is higher than typical benchmarks, indicating that the project is expected to yield substantial returns relative to the initial investment. This high ARR demonstrates the project's strong potential for profitability and justifies the investment.

Both NPV and ARR demonstrate that the proposed invest is associated with adding value to the company's operations.

4.6 IRR and Payback Period

IRR and Payback Period are also crucial metrics for investment appraisal that can help to make investment decision. The calculation table if provided in Table 23 below.

Table 23. Payback period and IRR calculation

Metric Name	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Annual Cashflow	-5,435,650	357,852	407,988	465,553	531,647	5,453,431
Cumulative Cashflow	-5,435,650	-5,077,798	-4,669,810	-4,204,257	-3,672,610	1,780,820
Payback Period	4.67					
IRR (Estimation)	6.68%					

Table 24 below provide a brief analysis of the estimations.

Table 24. Analysis table of IRR and Payback Period

	Estimation	Analysis
Internal Rate of Return (IRR)	6.68%	The IRR is the discount rate at which the net present value (NPV) of the project equals zero. With an IRR of 6.68%, the project's return is above the cost of borrowing. This means the project is expected to generate a return that exceeds the cost of capital, making it an attractive investment. The fact that the IRR is higher than the prevailing interest rate implies that the project not only covers its cost but also provides a healthy profit margin, thereby justifying the investment. A 6.68% IRR suggests the project is financially viable and could offer superior returns compared to other investment opportunities.
Payback Period	4.67%	The Payback Period is the time it takes for the project to recoup its initial investment from its cash inflows. A payback period of 4.67 years means that the project will take just over 4 years+ to recover the HK\$5,435,650,000 initial investment. This metric is crucial for assessing the project's risk; a shorter payback period is preferred as it reduces exposure to uncertainty and financial risk. In this case, a payback period of 4.67 years is reasonable for a long-term investment, indicating that the project will start generating positive returns relatively quickly.

Overall, the metrics suggest that the proposed investment is expected to bring high profits within a reasonable time.

4.7 Investment Appraisal

Investment appraisal involves evaluating the potential financial outcomes of a project to determine its feasibility and profitability. Techniques such as NPV, IRR, and Payback Period provide crucial insights into whether the expected returns will justify the initial investment (Harrison and John, 2013). For Chow Tai Fook's new outlet, the positive NPV and an IRR exceeding the current interest rate suggest that the project is financially sound and likely to contribute positively to the company's growth. These appraisal methods collectively ensure that the investment decisions are data-driven and aligned with the company's financial goals. However, the company should note that the investment will pay for itself only on Year 5, which demonstrates that if the stakeholders want faster payback, the investment should be reconsidered.

4.8 New Project Appraisal Methods for Analysis

Effective project appraisal requires the use of multiple methods to capture different aspects of financial viability. NPV and IRR are particularly valuable as they account for the time value of money, helping to compare the project's cash inflows with the initial capital outlay over time. The Payback Period, while simpler, offers insights into the liquidity risks by indicating how quickly the initial investment will be recovered (Fraser and Ormiston, 2023). Companies can make more informed decisions, balancing the potential returns against the risks involved if the methods are used together.

4.9 Suggestion for Cashflow of New Project

To optimize the cash flow for Chow Tai Fook's new project, it is recommended to adopt a phased revenue growth strategy, beginning with conservative estimates and gradually increasing as the outlet gains market traction. This approach allows the company to monitor and adjust operations in response to market conditions, ensuring financial stability. Additionally, controlling operating expenses and maintaining a consistent margin on the cost of goods sold (COGS) will be critical for maximizing profitability (Titman, Keown, and Martin, 2021). These strategies will help manage the project's financial risks and ensure a stable cash flow that supports long-term success.

5. Financing and Capital Management

5.1 Financing Methods for Analysing

When considering financing options for raising funds equivalent to 3% of total assets, Chow Tai Fook has several avenues to explore. These include debt financing, equity financing, and hybrid instruments such as convertible bonds (Brealey, Myers, and Allen, 2020). Debt Financing involves borrowing funds from financial institutions or issuing bonds. The advantage of debt financing is the tax deductibility of interest payments, which can improve cash flow and profitability (Ross, Westerfield, and Jaffe, 2021). However, increasing debt raises the company's financial risk, as reflected in financial ratios like the debt-to-equity ratio, potentially leading to higher costs of future borrowing.

Equity Financing involves issuing new shares to investors. This method does not require repayment and avoids interest costs, preserving the company's cash flow for operational needs (Dallocchio et al., 2017). The drawback is dilution of existing shareholders' equity and possible negative impacts on earnings per share and return on equity if the new capital does not generate proportional returns. Hybrid Instruments, such as convertible bonds, offer flexibility, as they can be converted into equity at future dates. This reduces immediate dilution concerns and interest burdens, providing a strategic balance between debt and equity (Brealey, Myers, and Allen, 2020).

5.2 Financing Method Proposed

Considering Chow Tai Fook's current financial structure and market conditions, a combination of debt financing and hybrid instruments is recommended. The company should consider issuing medium-term bonds combined with a smaller issuance of convertible bonds. This strategy allows Chow Tai Fook to leverage the lower interest rates associated with bonds while maintaining the flexibility to convert part of the debt into equity should the share price appreciate significantly. Issuing bonds will capitalise on the current low-interest environment, mitigating the impact on cash flows and preserving credit capacity for unforeseen needs (Ross, Westerfield, and Jaffe, 2018). The convertible bonds will serve to attract investors looking for growth potential with reduced risk, offering a potential future conversion at a favourable conversion rate.

This mixed approach balances the immediate need for cash with long-term strategic flexibility, minimising the dilution of ownership and keeping the company's leverage within manageable limits. It aligns with maintaining a healthy working capital cycle and optimising the company's current and quick ratios, ensuring operational liquidity without compromising on strategic financial health (Dallocchio et al., 2017).

6. Recommendations and Action Plan

The following action plan outlines a strategic approach to addressing the critical financial and operational challenges identified in the earlier analysis of Chow Tai Fook. This plan is structured over four quarters, prioritizing actions that target key areas such as financial stability, operational efficiency, and corporate governance to ensure the company's sustained growth and resilience. Each action is designed to improve specific financial metrics and operational outcomes, aligning with the company's long-term objectives. Table 25 below provides an audit plan.

Table 25. Action plan

Quarter	Problem Identified	Action	Objective	Deadline	Responsible Department
Q1	Decline in Bankruptcy Z-Score	Implement a financial risk mitigation plan by restructuring debt and increasing cash reserves.	Improve financial stability and Z-Score by 10%.	End of December	Finance
	Increase in Debt/Equity Ratio	Initiate a debt reduction strategy by refinancing high-interest debt with lower-cost options.	Reduce Debt/Equity Ratio by 0.2.	Mid-December	Finance
Q2	Rising Current Liabilities to Stock Ratio	Optimise inventory management through advanced analytics and tighter inventory controls.	Reduce Current Liabilities to Stock Ratio by 15%.	End of March	Operations & IT
	Decline in Profitability Margins	Conduct a cost-reduction programme focusing on operating expenses.	Improve Net Profit Margin by 1%.	End of March	Operations
Q3	Declining Liquidity Ratios	Strengthen liquidity by improving cash flow through better receivables management and extending payables.	Increase Current Ratio to 150%.	Mid-June	Finance
	Moderate Operating Efficiency	Implement process improvements and technology upgrades to enhance asset utilisation.	Improve ROA and Asset Turnover Ratio by 5%.	End of June	Operations & IT
Q4	Decline in Equity Growth	Launch a strategic equity financing round to strengthen the capital base.	Increase Equity by 10% compared to the previous quarter.	Mid-September	Finance & Strategy
	Corporate Governance Improvements Needed	Enhance corporate governance practices by increasing board diversity and strengthening whistleblower protection mechanisms.	Implement at least two new governance initiatives.	End of September	Legal & Compliance

7. Conclusion

This report has provided a comprehensive analysis of Chow Tai Fook's financial health, operational strategies, and market positioning compared to its competitors. Through detailed financial metrics of profitability, efficiency, solvency, and liquidity the report demonstrated that while the company demonstrates a stable financial performance, there are areas of improvement in managing the capital. The investment appraisal demonstrated one of the possible strategies for improving the current position. The company's corporate governance approach is associated with high efficiency. However, there are significant improvement that can be made in all areas. The action plan provided in Section 6 of this report provides a comprehensive path for Chow Tai Fook to acquire sustainable competitive advantage.

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Appendix A: Critical Financials

Chow Tai Fook (in HK\$,000)

Metric	2022	2023	2024
Total Revenue	98,397,700	94,684,400	108,713,000
Cost of Revenue	76,598,000	73,512,900	86,428,000
Gross Profit	22,399,700	21,171,500	22,285,000
Operating Expense	13,747,600	13,608,500	13,193,300
Operating Income	8,592,100	7,563,900	9,071,700
Pretax Income	8,983,000	7,446,500	8,728,300
Tax Provision	2,103,100	1,957,000	2,121,100
Net Income Common Stockholders	6,712,300	5,384,400	6,499,300
Basic EPS	0.67	0.54	0.65
Diluted EPS	0.67	0.54	0.65
Total Expenses	90,345,600	87,121,400	99,621,300
Total Assets	87,737,300	87,340,500	88,819,000
Current Assets	78,125,600	77,266,800	79,182,400
- Cash and Cash Equivalents	14,942,200	11,733,800	7,695,400
- Inventory	57,254,000	59,290,400	64,647,000
- Prepaid Assets	9,611,700	10,073,700	9,636,600
Total Non-current Assets	9,611,700	10,073,700	9,636,600
- Net PPE	6,717,500	6,841,400	6,308,100
- Goodwill	158,000	-	25,000
- Other Intangible Assets	109,000	323,100	292,700
- Investment Properties	66,300	346,300	370,400
- Non Current Prepaid Assets	n/a	n/a	n/a
Total Liabilities	53,182,600	53,980,700	62,073,400
- Current Liabilities	49,629,400	51,021,500	57,520,400
- Current Debt	22,996,300	19,452,400	25,281,400
- Long Term Debt	1,788,800	1,488,100	3,342,300
Total Equity Gross Minority Interest	33,619,300	32,397,400	25,715,000
Stockholders' Equity	10,000,000	10,000,000	9,987,736.80
- Common Stock	-	-	6,000
- Additional Paid in Capital	935,400	962,400	1,030,600
Minority Interest	33,510,300	32,331,100	25,690,000
Net Tangible Assets	28,496,200	26,245,300	21,662,000
Working Capital	58,404,400	53,337,900	54,338,700
Invested Capital	9,842,900	9,245,500	20,928,300
Net Debt	10,000,000	10,000,000	9,987,736.80
Share Issued	10,000,000	10,000,000	9,987,736.80
Ordinary Shares Number	10,000,000	10,000,000	9,987,736.80
Share Price	14.10	15.58	11.60
Interest expense	337,700	585,400	704,600

Luk Fook (in HK\$,000)

Metric	2022	2023	2024
Total Revenue	11,737,803	11,977,844	15,325,962
Cost of Revenue	8,503,976	8,747,447	11,151,623
Gross Profit	3,233,827	3,230,397	4,174,339
Operating Expense	1,521,859	1,702,491	2,117,271
Operating Income	1,642,569	1,527,497	2,003,068
Pretax Income	1,683,633	1,565,391	2,085,004
Tax Provision	291,296	280,664	327,166
Net Income Common Stockholders	1,392,364	1,284,757	1,767,305
Basic EPS	2.37	2.19	3.01
Diluted EPS	2.37	2.19	3.01
Total Expenses	10,095,234	10,450,347	13,322,894
Total Assets	16,220,269	14,928,506	16,854,064
Current Assets	13,002,006	11,972,903	12,332,308
- Cash and Cash Equivalents	3,492,037	2,347,651	1,934,111
- Inventory	8,678,773	8,852,611	9,567,062
- Prepaid Assets	147,343	180,706	155,525
Total Non-current Assets	3,218,263	2,955,603	4,521,756
- Net PPE	1,214,520	1,225,820	1,766,565
- Goodwill	280,785	363,878	1,571,767
- Other Intangible Assets	280,785	363,878	1,294,093
- Investment Properties	1,007,606	1,127,727	925,726
- Non Current Prepaid Assets	421,568	51,625	94,053
Total Liabilities	4,141,741	2,707,564	3,990,166
- Current Liabilities	3,908,586	2,466,431	3,516,809
- Current Debt	1,954,836	540,134	1,427,805
- Long Term Debt	153,013	147,605	319,420
Total Equity Gross Minority Interest	12,078,996	12,220,942	12,863,898
Stockholders' Equity	12,078,996	12,220,942	12,863,898
- Common Stock	58,710	58,710	58,710
- Additional Paid in Capital	2,494,040	2,494,040	2,494,040
Minority Interest	-468	-498	-26,962
Net Tangible Assets	11,798,211	11,857,562	11,319,093
Working Capital	9,093,420	9,506,472	8,815,499
Invested Capital	14,033,832	12,761,574	14,318,665
Net Debt	23,097	20,763	59,596
Share Issued	587,108	587,108	587,108
Ordinary Shares Number	587,108	587,108	587,108
Share Price	18.965	25.453	21.411
Interest Expense	23,097	20,763	59,596

Tse Sui Luen (in HK\$,000)

Metric	2022	2023	2024
Total Revenue	2,767,788	2,590,936	2,654,627
Cost of Revenue	1,704,961	1,682,093	1,868,962
Gross Profit	1,062,827	908,843	785,665
Operating Expense	976,542	913,703	1,057,321
Operating Income	86,285	-4,860	-271,656
Net Non Operating Interest Income	-26,533	-58,763	-82,222
Pretax Income	60,502	-47,177	-347,822
Tax Provision	45,088	24,366	26,524
Net Income Common Stockholders	15,546	-71,435	-374,198
Basic EPS	0.06	-0.29	-1.5
Diluted EPS	0.06	-0.29	-1.5
Total Expenses	2,681,503	2,595,796	2,926,283
Total Assets	2,707,167	2,844,218	2,361,272
Current Assets	2,335,818	2,347,120	1,872,652
- Cash and Cash Equivalents	737,232	348,282	179,967
- Inventory	1,369,451	1,469,770	1,253,246
- Prepaid Assets	112,546	59,190	54,483
- Restricted Cash	-	366,216	294,143
Total Non-current Assets	371,349	497,098	488,620
- Net PPE	205,439	267,466	186,201
- Goodwill	76,082	93,579	87,846
- Other Intangible Assets	76,082	93,579	87,846
- Investment Properties	1,007,606	1,127,727	925,726
Total Liabilities	1,659,122	1,950,754	1,808,310
- Current Liabilities	1,571,121	1,259,588	1,233,606
- Current Debt	920,409	540,134	584,712
- Long Term Debt	61,210	601,755	491,682
Total Equity Gross Minority Interest	1,048,045	893,464	552,962
Stockholders' Equity	1,048,479	894,058	553,725
- Common Stock	62,296	62,296	62,296
- Additional Paid in Capital	122,011	122,011	122,011
Minority Interest	-434	-594	-763
Net Tangible Assets	972,397	800,479	465,879
Working Capital	764,697	1,087,532	639,046
Invested Capital	1,691,888	2,067,263	1,630,119
Net Debt	565,902	825,295	896,427
Share Issued	249,182	249,182	249,182
Share Price	1.05	1.35	0.85
Interest expense	31,692	60,551	84,257