

THE GROUP'S RESULTS

In 2004, Chow Sang Sang as a Group achieved a turnover of HK\$7,017 million, a rise of 11% from 2003. Profit attributable to shareholders amounted to HK\$200 million, increasing by 71% from the HK\$117 million of the prior year. Earnings per share was HK39.91 cents, whereas in 2003 it was HK25.58 cents.

Overview

The Group is engaged in three businesses: jewellery retail, wholesale of precious metals, and brokerage of stock and futures.

Retail of jewellery is conducted by Chow Sang Sang Jewellery Company Limited and its fellow subsidiaries. Together they operate 33 shops in Hong Kong and 44 shops in Mainland China as at 31 December 2004, bearing the name "Chow Sang Sang". They also operate another chain called "Emphasis", which has 9 shops in Hong Kong and 21 shops in Taiwan.

Chow Sang Sang has been a well-known brand in Hong Kong for many years. Generations of customers have had their newborns, weddings and anniversaries commemorated with gold and gem-set jewellery from the Group. Countless ladies have had their hearts warmed by the Group's jewellery as gifts from some loved one or self-purchases. Tourists from the Mainland seek out the Group for its wide assortment of merchandise, top quality service and forthright business ethos.

The Group has set its sights on the retail market in Greater China. It positions itself as a *brand of international calibre* operating in this region. Its medium term goal is to become the top-notch jeweller in the Mainland market, a position similar to those it already occupies in Hong Kong and Taiwan.

To this end the Group is expanding its retail network in the Mainland city by city. It is already established in Beijing, Shanghai (and other cities in the Changjiang Delta area), Guangzhou, as well as other provincial capitals. More shops are planned at the rate of about 15 per year.

Because of the Group's positioning as a brand of international calibre, it has chosen to set up shops on its own, without resorting to franchising or licensing. This strategy requires more intensive use of capital and human resources and may result in a slower pace of expansion than that achieved by its competitors. However, it does give the Group better control over its shops and the overall brand-image. One of the criteria for selection of shop premises is that it must be a prestige setting commensurate with the Group's image and stature.

本集團業績

於2004年周生生集團的營業額達7,017,000,000港元，較2003年上升11%。股東應佔溢利為200,000,000港元，較前一年度117,000,000港元上升71%。每股溢利為39.91港仙，2003年為25.58港仙。

綜觀

本集團經營三方面業務：珠寶零售、貴金屬批發及證券與期貨經紀業務。

珠寶零售業務由周生生珠寶金行有限公司及其聯屬公司經營。於2004年12月31日，在香港以「周生生」經營的有33家，在內地有44家。以「點睛品」經營的分店在香港有9家，在台灣有21家。

周生生一直為香港的馳名品牌。不同年代的顧客以本集團的珠寶金飾慶賀彌月、新婚及結婚紀念，無數女士也曾接受至愛饋贈本集團的首飾為禮物或購買自用。本集團多元化的產品、優質的服務及穩健的企業形象深受內地旅客的歡迎。

本集團著力發展大中華地區的零售業務，長遠定位成為國際級品牌，中期定位與本港及台灣的相似——在內地市場紮根。

目前本集團在內地零售網絡的發展以城市為主，目前已在北京、上海（及其他長江三角洲流域的城市）、廣州及其他省會設立分店。預計每年約增設15家分店。

本集團不設特許經營或授權經營，轄下的分店全部自營，以定位為國際級品牌，因此項發展需集中資金及人力資源，發展速度相對同業較慢，但對於分店管控及整體形象有較佳的效果。至於店址的選擇則需與本集團的形象及發展策略相配合。

MANAGEMENT DISCUSSION AND ANALYSIS

The Group sources its merchandise in a number of ways. It has its own manufacturing facilities in Shunde and Qingdao, China and in Hong Kong. It purchases from suppliers in China, Hong Kong, Japan and Italy branded and unbranded jewellery, and jewellery made to its design and specifications. The Group also buys polished diamond from suppliers in Israel, Belgium, China and New York.

Besides jewellery designed in-house, the Group offers customers a wide selection of international brands. Brands now being carried include: Stefan Hafner, The Love Diamond, Elara, DTC Forevermark, Marco Bicego. Teams of merchandisers regularly visit Europe and Japan to scout the market for new additions.

The turnover of diamond-set jewellery has increased by leaps and bounds over the past few years. This has prompted the Group to move into buying rough diamond and have them polished to order. The Group is already vertically integrated in that it buys gold and platinum for jewellery manufacture, and going upstream in diamond supply is a logical extension. By gaining more control over the diamond it needs for its jewellery, the Group expects to reap savings in time and cost. The current plans are not to develop its own diamond-polishing factory, but to strategically forge alliance with diamond polishers.

The chain Emphasis was started to spearhead changes in shop decor, quality service, visual merchandising, product mix and their interrelationship for the benefit of Chow Sang Sang. Ten years on, Chow Sang Sang has propelled itself into the forefront in all these departments. Moreover, numerous imitators has made Emphasis' market segment very overcrowded. Now with its mission complete, Emphasis is transforming itself into a purveyor of highly fashionable jewellery in an intimate setting, thus complementing Chow Sang Sang broad-platform approach.

World Commercial Sales Company Limited is a member of the Group that is engaged in wholesale of gold, platinum and palladium in Hong Kong. This is a high turnover-value low-margin business that is regarded as a core business to the Group, as its jewellery business uses a significant amount of these precious metals. The company minimises risk by not taking any positions in gold, only a small one in platinum, and by matching sells and buys meticulously.

Chow Sang Sang Securities Limited and Chow Sang Sang Futures Limited together operate 8 sales offices in Hong Kong, as well as an Internet trading platform. As financial intermediaries, they place heavy emphasis on internal control and risk management. They conduct compliance reviews in addition to annual external and internal audit reviews. Being a small retail-oriented broker in competition with banks and larger institutions, the companies focus on personal service while leveraging on the Group's branding.

管理層討論及分析

本集團以多種方式搜羅貨品；在中國順德、青島及本港均自設工場。亦有從內地、本港、日本及意大利的供應商採購各種品牌及獨特設計之首飾。此外，亦有自以色列、比利時、中國內地及紐約購入鑽石原料。

本集團除自行設計首飾外，亦有銷售多個國際名牌首飾，包括Stefan Hafner, The Love Diamond, Elara, DTC Forevermark, Marco Bicego。採購人員定期到歐洲及日本搜羅最時尚精品。

過去數年鑽石鑲嵌飾品的銷售大幅增長，促使本集團加入自行採購鑽石胚及打磨鑽石行列，本集團一向有購入黃、鉑金原料製造飾品，故擴闊鑽石原料供應也理所當然，且能節省資源。目前本集團並無計劃設置鑽石打磨廠，將先與鑽石打磨商緊密合作。

點睛品正著力從裝潢、服務質素、貨品組合等進行改革，過去十年，周生生已帶領潮流，另一方面，模仿點睛品者不計其數，故改革點睛品為高檔時尚珠寶店，與周生生相輔相成。

世界批發行有限公司為本集團的成員，在本港經營黃金、鉑金及鈹金批發。這是一項高營業額低利潤業務，由於本集團珠寶首飾業務利用該等貴金屬製造貨品，故仍被視為本集團的主要業務。此公司只存少量鉑金而不存黃金，並且即日平倉，以減少風險。

周生生證券有限公司及周生生期貨有限公司在香港共有8個營業點及一個互聯網平台。作為財務中介人，此兩家附屬公司均十分注重內部監控及風險管理，除年度之內、外審核外，亦不時在法規管治上作出檢討。身為以零售為主的小型經紀商，在與銀行及大機構競爭下，將專注在個人服務，以爭取集團利益。

Jewellery Retail

Retail of jewellery accounted for 32% of the Group's turnover, rising from the 29% in 2003. Turnover increased by 23% to HK\$2,254 million, as operating profit rose significantly by 46% to HK\$188 million.

Hong Kong

As Hong Kong's recovery from SARS and recession continued throughout 2004, the Group was able to record very significant growth for the year. During 2004 turnover increased by 22% to HK\$1,973 million, accounting for 87% of the total turnover in jewellery.

In order to strengthen the service to high-end consumers, both local and tourist, currently provided by the shops in Central, Festival Walk and Causeway Bay, two leases have been entered for some 300m² of shop space at 30 Canton Road, and about 190m² at 525 Hennessy Road, Causeway Bay. The two shops have opened in February 2005 and their results are very satisfactory. If suitable premises can be found, more such shops of international-brand calibre will be established.

The programme to refurbish older shops to the new-image standard will maintain its forward momentum. The entire plan is expected to be completed by the first half of 2006.

The Group continues to put heavy emphasis on diamonds, especially branded diamonds such as The Love Diamond. During 2004 the Group was one of six retailers in Hong Kong chosen to join with the Diamond Trading Company ("DTC") in London to pilot-launch the diamond brand called the DTC Forevermark. The pilot having been successful, DTC has scheduled a major launch in the fourth quarter of 2005 in which the Group plans to participate.

In November 2004, jewellery with themes from Walt Disney characters were first launched. Sales have been very successful, and new products and more characters will be introduced in the course of 2005.

Preparation for the store in Hong Kong Disneyland has reached the final stages. Fitting out of the premises is on schedule. Recruitment of personnel and stocking of merchandise are progressing to match the opening date in September 2005.

珠寶零售

珠寶零售佔本集團營業額32%，較2003年之29%有增長。營業額上升23%至2,254,000,000港元，經營溢利大幅上升46%至188,000,000港元。

香港

2004年本港經濟自沙士及衰退中復蘇，本集團業務因而獲得長足增長。2004年度珠寶業務營業額增長22%至1,973,000,000港元，佔珠寶總營業額的87%。

為加強對高層次消費者（包括本地顧客及遊客）的服務，除中環、又一城及銅鑼灣分店外，集團亦租用廣東道30號約300平方米及銅鑼灣軒尼詩道525號約190平方米兩舖位，並已於2005年2月開業，業績非常滿意。若能找到合適舖位有助發展國際品牌形象，將繼續增設分店。

將分店以新形象重裝的計劃繼續進行，預計在2006年上半年全部完成。

本集團繼續專注鑽石業務，經營名牌鑽石（如：The Love Diamond）。2004年間，倫敦國際鑽石商貿公司（「DTC」）推廣鑽石品牌「DTC Forevermark」試驗計劃，本集團為六家代理零售商其中之一。該項嘗試十分成功，本集團計劃參與DTC 2005年度第四季的大型推廣活動。

2004年11月推出了華特·迪士尼產品，銷售情況十分成功。2005年將繼續推出更多新產品及卡通人物首飾。

迪士尼樂園已籌備至最後階段，裝修工程也進行得如火如荼，集團正積極招聘人手及備貨，配合今年9月樂園開幕。

MANAGEMENT DISCUSSION AND ANALYSIS

In preparation for Emphasis' repositioning as a "fashion jewellery trend-setter", one shop was converted to a Chow Sang Sang and older stock has been gradually replaced by the new. In 2005 two shops will close as their leases expire. A programme of refitting will be launched to give the shops a new face, one befitting shops that carry international brands with characteristically fashion designs. Already efforts are being made to locate suitable premises for additional shops.

China

During 2004 turnover from Mainland shops has reached HK\$177 million, or 8% of the total turnover in jewellery. New shops opened in the year included those in Changchun, Harbin, Shenyang, Hangzhou, Xiamen, Zhongshan, Jiangmen, Taiyuan, Zhanjiang, Nanchang, Chongqing, Changsha and Shijiazhuang.

At the same time as shops are being opened in other cities as part of the effort to increase geographical coverage, additional shops are being planned for strategic cities such as Beijing, Shanghai and Guangzhou and their environs.

Taiwan

In 2004 the operation of Emphasis in Taiwan was in a holding pattern. In 2004 turnover from Taiwan shops amounted to HK\$104 million, or 5% of the total turnover in jewellery.

In preparation for the makeover in Emphasis, the management team in Taiwan was strengthened by the local recruitment of key personnel, including a new General Manager who has extensive international brand experience.

As the sole standard bearer for the Group there, Emphasis in Taiwan, will be recast in line with Emphasis Hong Kong but will carry a wider selection of goods, including brands in the Group's stable, such as Lady Heart, Walt Disney and The Love Diamond.

Wholesale of Precious Metals

In 2004 this segment accounted for 64% of the Group's turnover and 4% of operating profit. Turnover increased by 5% to HK\$4,503 million, and operating profit stayed even at HK\$10 million.

This segment makes use of the Group's goodwill. Here competition is on price first and service distantly second. Business is expected to be stable in 2005.

管理層討論及分析

為配合點睛品重新定位為「時尚潮流首飾的先導」，一家分店改以周生生經營，貨品亦重新配置。2005年有兩家分店租約期滿後結業，其他分店將重新裝修，務求帶給客人全新形象——具時尚設計特式的國際品牌店。另一方面，亦繼續物色合適的舖位增設銷售點。

中國內地

2004年內地分店營業額達177,000,000港元，佔珠寶總營業額8%。年內增設的分店包括長春、哈爾濱、瀋陽、杭州、廈門、中山、江門、太原、湛江、南昌、重慶、長沙及石家莊。

集團同時在其他城市拓展分店，擴大地域覆蓋範圍，策略為在北京、上海、廣州等重點城市，及其鄰近城市增設分店。

台灣

2004年台灣的點睛品維持平穩，營業額達104,000,000港元，佔珠寶總營業額5%。

為了準備點睛品的改革，年內加強台灣當地管理層班子，包括在當地聘請了具豐富管理國際品牌經驗的新總經理。

集團在台灣只經營點睛品，其風格固然與香港點睛品一致，但售賣的貨品會比香港點睛品較濶，包括本集團所經營的Lady Heart、華特·迪士尼及The Love Diamond。

貴金屬批發

貴金屬批發業務佔本集團營業額64%及經營溢利4%。營業額增長5%至4,503,000,000港元，經營溢利則仍為10,000,000港元。

此項業務以本集團商譽經營，競爭以價格為首，服務為次，預計2005年業務穩定。

MANAGEMENT DISCUSSION AND ANALYSIS

管理層討論及分析

Securities and Commodities Broking

In 2004 the securities and futures brokerages reported a 25% increase in turnover to HK\$39 million, and a profit of HK\$13 million.

The transaction volume handled was HK\$14 billion. Remarkably, the average commission rate was 0.24% whereas the market average was 0.22%. Online trading has increased steadily to account for 24% of the total volume.

During the year, several sales offices were upgraded in order to refine their image and enhance the ambiance for the comfort of clients. VIP rooms and private offices were set up to cater to the needs of serious investors. An "investment centre" established at Yuen Long and serviced by a team of experienced customer service staff proved to be popular with the clients there.

Although the outlook for this segment largely depends on the stock market, the Group shall strive to hone its competitive edge by exploring more ways to improve client service, one of which may be the establishment of more "investment centres".

Investments

Investment Properties

Most of the Group's properties are held for its own use as jewellery shops and factory premises. Rental revenue from investment properties amounted to HK\$6 million, which accounted for less than 1% of the Group's overall turnover.

Shares in Hong Kong Exchanges and Clearing Limited

Shares in Hong Kong Exchanges and Clearing Limited ("HKEC"), received as distribution from the merger of the stock and futures exchanges in 2000, are being held by the Group as long term investment. At 1 January 2004, the Group had 6,053,500 shares. During the year, 400,000 shares of HKEC were sold, realising a gain of HK\$8 million. As at 31 December 2004, the Group held 5,653,500 shares of HKEC and the unrealised gain on the holding amounted to HK\$117 million (2003: HK\$101 million).

證券及期貨經紀

證券及期貨經紀業務在2004年的營業額達39,000,000港元，錄得25%升幅，獲利13,000,000港元。

交投量總額為14,000,000,000港元。平均佣金率為0.24%，市場平均則為0.22%。網上交易業務平穩增長，佔總交投量24%。

部分營業地點於年內經過重新裝修後，以更佳形象示人，為顧客提供舒適的環境，並特設貴賓房及專用地方，以迎合個別投資者需要。設於元朗區的「投資中心」，由經驗豐富的業務隊伍提供服務，深受當地客戶歡迎。

此業務前景雖然主要取決於證券市道，本集團將致力提昇各種顧客服務以加強競爭力，其中包括增闢更多「投資中心」。

投資

投資物業

本集團所持物業大部分自用為珠寶店及廠房。投資物業帶來之租金收入為6,000,000港元，佔本集團營業額不足1%。

香港交易及結算所有限公司股份

於2000年證券及期貨交易所合併而獲分配之香港交易及結算所有限公司（「港交所」）股份，由本集團持有作長期投資。於2004年1月1日，本集團持有6,053,500股股份。年內本集團售出400,000股港交所股份，變現之收益為8,000,000港元。於2004年12月31日，本集團持有5,653,500股港交所股份，未變現之收益為117,000,000港元（2003年：101,000,000港元）。

MANAGEMENT DISCUSSION AND ANALYSIS

管理層討論及分析

Finance

Financial Position and Liquidity

The Group centralises funding for all its operations through the corporate treasury based in Hong Kong. This policy achieves better control of treasury operations and lower average cost of funds.

The Group is in a strong financial position, with cash and cash equivalents of HK\$229 million as at 31 December 2004. In addition, the Group has available bank loans and overdraft facilities of HK\$309 million.

Total borrowings for the Group as at 31 December 2004 amounted to HK\$62 million, which was repayable in one year. The Group's policy is to obtain financing on an unsecured basis whenever possible, and unsecured debt accounted for 50% of total borrowings as at 31 December 2004. The Group has a low gearing ratio of 3%, based on net debt of HK\$62 million and shareholders' equity of HK\$1,968 million. At the end of 2004, the current ratio was 3.5, based on current assets of HK\$2 billion and current liabilities of HK\$581 million. Most of the cash is deposited in the leading banks of Hong Kong in either HK dollar or US dollar.

Foreign Exchange Risk Management

The Group has foreign currency exposure in Renminbi ("RMB"), Taiwanese dollars, Euro and Japanese Yen. Currency risks are managed by partly financing non-Hong Kong dollar assets with loans denominated in the relevant currency. As at 31 December 2004, total foreign currency borrowings excluding RMB borrowings amounted to approximately HK\$5 million. RMB loans at the year end amounted to RMB61 million (2003: RMB6 million) and are used for cash management in Mainland China.

Apart from the above, most of the Group's assets and liabilities, revenues and payments are in HK\$. The Group therefore considers its foreign exchange exposure insignificant.

Charges on Assets

The Company guarantees banking and other facilities granted to its subsidiaries. The Group's banking facilities were secured by time deposits of HK\$58 million (2003: HK\$16 million), certain fixed assets and investment properties with a net carrying value of HK\$153 million (2003: HK\$152 million), and long term listed investment of HK\$56 million (2003: HK\$45 million). At 31 December 2004, the Group's total bank loan and gold loan amounted to HK\$62 million (2003: HK\$10 million) and HK\$11 million (2003: nil), respectively.

財務

財務狀況及資金管理

本集團營運資金集中由香港財政部門統籌，令各項業務營運現金流量得到較佳監控，減少整體融資成本。

集團財政狀況穩健，於2004年12月31日之現金及等同現金為229,000,000港元，銀行可動用之貸款及融資額為309,000,000港元。

本集團於2004年12月31日之借貸總額為62,000,000港元，須於一年內償還。本集團盡量以無抵押方式取得融資，於2004年12月31日之無抵押債項為借貸總額50%。本集團的負債比率為3%，屬於低的比率，是以淨負債62,000,000港元及股東權益1,968,000,000港元為計算基礎。於2004年底，以流動資產2,000,000,000港元及流動負債581,000,000港元為基礎之流動比率為3.5。大部分現金以港元或美元存於本港具領導地位的銀行。

外匯風險管理

本集團的外幣風險主要在人民幣、台幣、歐羅及日元；管理方法是用外幣債務為手上同幣資產融資。於2004年12月31日，不計人民幣之外幣借款約為5,000,000港元。年底之人民幣借款為61,000,000人民幣（2003年：6,000,000人民幣），作內地資金管理用途。

此外，集團大部分資產及負債、收入及付款均以港元結算。集團外匯風險因而相對很小。

資產抵押

本公司為其附屬公司取得銀行及其他信貸提供擔保。本集團為銀行融資提供的抵押品包括定期存款58,000,000港元（2003年：16,000,000港元），賬面淨值達153,000,000港元（2003年：152,000,000港元）之固定資產及投資物業，及長期上市投資56,000,000港元（2003年：45,000,000港元）。於2004年12月31日，本集團之銀行貸款及黃金借貸總額分別為62,000,000港元（2003年：10,000,000港元）及11,000,000港元（2003年：無）。

MANAGEMENT DISCUSSION AND ANALYSIS

Human Resources

As at 31 December 2004, the Group, excluding its associates, has 1,867 employees all over Greater China.

As a rule the Group, in China, Hong Kong or Taiwan, recruits locally unless there is overriding need otherwise. Remuneration everywhere is performance based. In general, awards are given to sales staff based on the turnover of the shops, and discretionary bonuses may be granted to all classes of staff based on overall performance of the Group.

The Group does not have any option plans.

In view of the expansion plans of the Group in China, a new Training and Development Department has been set up to formalise the training systems both in Hong Kong and the Mainland. Training offered were aimed at different levels, such as frontline sales staff and shop managers, and dealt with a variety of topics, ranging from the technical to the linguistic. This department will establish centres in the Mainland during 2005 in order to quicken the pace of training there.

In the same vein, the Group has adopted the policy of when budgeting human resources the pay levels for new hiring must be set at market rates or better.

The high-level positions of brand directors for Chow Sang Sang and Emphasis were created. These have been filled by two persons each with her own collection of international brand experience and marketing expertise. They are tasked to set directions and devise business plans for their respective brands.

In September 2004, six fresh local university graduates who are Mainlanders were recruited into an innovative programme for management trainees. After training a year or so in Hong Kong, they will be deployed in the Group's operation in China. They will be additional and efficient conduits through which the corporate value and culture can be infused into the organisation in the Mainland. A second cohort is planned for 2005.

Outlook

The economy in China is growing, and the economy in Hong Kong is fast recovering. The economy in Taiwan is steady.

The healthy states of the economies in Greater China notwithstanding, there are issues of concern. The price of oil has gone up and looks likely to stay high. Interest rates are also creeping upward. Either or both can dampen any or all of the economies. The continued weakness of the US dollar has already caused price increases for gold and diamond, and made euro- and yen-based products more expensive. Any and all of these factors can cause consumer sentiments and spending to slacken during 2005.

管理層討論及分析

人力資源

於2004年12月31日，本集團（除聯營公司外）在大中華地區共有1,867位僱員。

除非有特別需要，本集團的原則是在中港台各地招聘當地員工。報酬以員工表現為基準。一般來說，銷售人員的業績獎按該店的營業額而定，年終獎金則按集團整體表現發放。

本集團沒有任何認購權計劃。

為配合在內地的發展，年內成立了培訓發展部，使本港及內地的培訓制度更嚴謹。培訓對象包括各階層同事（如店員及店長），培訓內容多樣化，由技術性至語言訓練均列入為培訓內容。計劃在2005年在內地設立培訓中心以加速培訓的步伐。

集團採納以市場薪酬或更佳條件為聘任的政策。

年內增設了周生生及點睛品品牌總監職位，由兩位具拓展國際級品牌及專業市場經驗人士擔任，已先後到職，職責為各自品牌訂定市務方向及業務拓展計劃。

於2004年9月，集團聘用了6名本港大學畢業的內地生為見習行政員。預計在本港受訓一年後分派至集團內地的崗位，將集團的價值觀及企業文化灌輸至內地。現正籌備招聘第二批見習生。

前瞻

內地經濟持續增長，本港經濟迅速復蘇。台灣經濟亦表現平穩。

縱然大中華地區整體經濟表現穩健，仍有幾方面值得關注。油價上升後一直在高位徘徊，利率也有上升的趨勢，兩者對經濟均有威脅。美元持續疲弱，已導致金價及鑽石價格上升，而以歐羅或日元為折算單位的貨品也因此更見昂貴。這幾方面帶來的影響均可導致2005年的市場消費力減弱。