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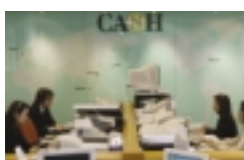


## INDUSTRY AND ECONOMIC REVIEW

In 2004, the economic recovery in Hong Kong continued to gain momentum with deflation ending and the property market revived. The 2004 whole year GDP grew by 8.1% in real terms over a year earlier, with private consumption expenditure alone surged by 6.7% in real terms during the same period. Underpinning this recovery has been the strong tourist and consumer spending as well as a pick-up in exports. Tourism, which started to take off in mid-2003 after the relaxation of traveling requirements for individuals in Mainland China, continued to grow by leaps and bounds.

The domestic stock market turnover has also benefited from a rising tide in Macau where the gaming and leisure industry is poised to take off. At the same time, the low interest rates have helped the property market in Hong Kong recover rapidly with turnover in some segments approaching pre-1997 highs. Speculations that Renminbi might re-value imminently have attracted hot money flows into the Hong Kong financial system and boosted activities in both the property and the equity markets.

Externally, the US dollar resumed its course of weakening against the euro and the yen in the second half of 2004 on the back of the burgeoning twin deficits in the US, and concerns over an economic slowdown in the US in 2005. In Mainland China, overheating concerns have led to macro-economic controls since the second half of 2003. Uncertainty over an economic soft-versus hard-landing has caused market jitters and volatility. However, the stock market in Hong Kong remained resilient. Better still, market turnover seemed to have benefited from the volatility. The bellwether Hang Seng Index finished the year 13.2% higher than 2003 and turnover soared 53.7% to HK\$3,993.6 billion.



The effect of the abolition of minimum brokerage commissions in 2003 fully surfaced during 2004, with brokerage firms in general experiencing profit margin squeeze. However, the increase in trading volume of our financial services business has more than offset the negative impact of the reduction in commission rates.

Under this backdrop, the retail industry also benefited. According to the Census and Statistics Department, the total retail sales value increased by 10.8% in 2004. However, despite improvements in the general economy, we continued to combat the residue effect of the poor economic fundamentals during the past few years as consumer price sensitivity continued to hamper efforts to improve gross profit for our retailing business. This was reflected in the specific years-long decline in durable goods item in Composite CPI for the year 2004.

### BUSINESS REVIEW

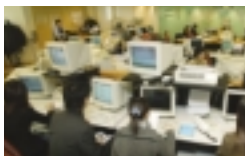
#### Financial Services – CFSG

During the year, we remained committed to solidifying our cost leadership position in the industry. While profit margin squeeze due to minimum commission abolition has impacted our operating revenue, our enhanced cost efficiency throughout the Group has allowed us to maintain our profit margin. We are now in a position to process the same amount of orders at a lower cost.

The global investment environment continued to improve in 2004. Despite concerns over rising commodity prices and geopolitical tensions, major equity markets saw their 2003 broad-based rally continue into 2004 and finished the year stronger on the back of continued global economic growth and low interest rates. The Hang Seng Index was particularly strong in the fourth quarter and closed 2004 at 14,230, or a sequential growth of 13.2%.

Against this increasingly favorable economic and investment backdrop, we met both new and existing opportunities with a focus on diversifying our revenue and product mix, and continuing to strengthen our pillar businesses in brokerage, wealth management, and investment banking. As part of our constant effort to enhance our clients' product choices and experience, we re-launched the foreign exchange trading business in May in anticipation of a growing need for this service.

Echoing our wealth management and brokerage integration initiatives, we upgraded our Causeway Bay Client Service Centre to a Wealth Management Centre in March and opened up a new location in Hunghom in May to strengthen our local presence in this attractive district.



As a technology leader and a client-focused service provider, we have expanded our technology capabilities to better serve clients who have real-time trading needs. In December, we launched the 3G trading platform for the technology-savvy on-the-road clients.

The wealth management business, introduced in 2003 as part of the product and income diversification strategy, continued to experience double-digit growth in headcount and revenue during the year. This wealth management business, which presents an enormous opportunity to drive our future growth, accounted for approximately 11.5% of CFSG's overall revenue in 2004.

In investment banking, we have taken steps to ensure we are competitively-positioned to provide medium-sized corporate clients with a full breadth of services including corporate finance, financial advisory, underwriting, and financial re-engineering. During the year, our investment banking division was very active in broadening and deepening client relationships and has recently entered into agreements with a few PRC clients to sponsor their listings in 2005. The Division has also raised its profile through its participation in major primary and secondary offerings in Hong Kong in 2004.

### **Home Improvement – Pricerite**

In the midst of a stabilising market environment, Pricerite continued to sharpen our business edges to deliver better products and services to our customers.

#### ***Improving Customers' Shopping Experience***

We continued to improve the shopping environment in Pricerite stores. We completed upgrading our in-store shopping environment. Works included the standardisation of corporate and visual identities, a more logical planning of customer flows inside the stores, and the planning and spacing of racks and merchandise. Overall, the new look of Pricerite stores was well received by customers to be a more spacious and better-displayed shopping environment.



Following the well received "room setting" in-store display of furniture and associated household products, we extended the "room setting" display to all furniture-carrying stores.

### ***Re-engineering Our Merchandise***

To meet the ever demanding needs of our customers for better selection of products, Pricerite introduced wider and deeper ranges of merchandise mix during 2004. We reviewed and refined our range within each product category. On the whole, Pricerite started migrating towards a more focused retailer in product groupings that are highly identified with our customers. Within each of such product categories, we introduced a deeper range of product offering to enhance customer choice.

### ***Sharpening Our Tools***

We continued to enhance our operating efficiency and the scalability of our supply chain management. During the year, we conducted a comprehensive review in our operations, system and management reporting processes. A professional team was assigned to conduct a re-engineering project in our household section to study, evaluate, measure and improve the various components of our business. New operations workflow and system were established, trial run and implemented for all functional areas within the purchase and sales cycle and the related inventory management. As part of the re-engineering project, we also reviewed and re-defined the Key Performance Indicators ("KPIs") of various components in our household retailing business. New KPIs were adopted as the standard means of performance measurement, communication and evaluation.

We continued to invest in and deploy IT to provide a more accurate and robust system for our management and operations. Further to winning the Intelligent 20 Award in 2003, our IT application in inventory management, the Wireless Warehouse Management System (WMS), won the MIS Innovation Award 2004 organised by MIS Asia magazine. The award was presented to recognise innovative use of technology in enhancement of productivity in Asian business enterprises.



Our collaborative efforts in re-engineering our household business reported initial success in enhancing our operating efficiency during the year, with remarkable results in raising the vendor fulfillment rate by 12% and improving our stock-out ratio to below 5%. This encouraging result boasted our confidence to re-engineer our furniture business in 2005.

### ***Enhancing Our Customer Service***

Our commitment in enhancing our service quality continued and culminated in two Distinguished Salesperson Awards and one Outstanding Young Salesperson Award being presented to our frontline staff in the 36th Distinguished Salesperson Award Programme as organised by the Hong Kong Management Association in June 2004. Participants of the said programme mainly came from the service sector like banks, insurance company, airlines, telecommunications companies and property agencies. We are glad that our investment in nurturing our staff was recognised. During the year under review, we invested in more than 2,000 training hours on improving our staff's skills in areas such as customer service and product knowledge.

### ***Fine Tuning Our Network***

As part of our strategy to constantly improve our overall profitability, we continued to regularly review our store network. Stores below performance targets were replaced with new stores that are better located with higher customer traffic. As of 31 December 2004, our store network comprised a total of 38 stores.

### ***Building Strength in the Greater Pearl River Basin***

To serve the growing operation needs in the PRC markets, in September, Pricerite started an operations support centre in Shenzhen, the PRC, employing more than 70 staff to provide cost effective and timely back office support to serve the markets in Hong Kong and the Guangdong Province. The operations support centre will also include a procurement centre to support our global distribution business.



To further strengthen our presence in Guangzhou, we relocated our store from the southern region to the Tian He area in the northern region. The new store in this Northern Guangzhou is favourably located at a popular shopping area with proximity to excellent customer traffic and easy access to the subway network. In Shenzhen, our fourth outlet was opened in the new B&Q home decoration and building materials mall. To date, we have a total of four outlets in Shenzhen.

### ***Materialising Our International Business Model***

In 2004 Pricerite made significant advancements in international business. Our international expansion strategy consists of two components: licensing of the Pricerite operation, and provision of supply chain management services for international retailers.

Our business in the Middle East continued to make significant progress. Pricerite and ARTAR, our Saudi business partner, built operation teams in Riyadh and Hong Kong to work on the opening of the Saudi operation and the associated work in supply chain operations. The Riyadh store boasts 50,000 square feet shopping space and is expected to open in 2005.

### ***Catering for Growing Market Demand***

In view of the booming demand for the most up-to-date digital products from both local and tourist customers, we launched a new retail chain named "3C Digital" in Hong Kong last year. 3C Digital aims at providing customers with trendy digital products to enjoy life. Four shops were initially opened, including a flagship store at Langham Place, Mongkok and three "shop-in-shop" operations in Pricerite stores. All four stores are strategically located at high traffic shopping area in Mongkok, Shatin and Yuen Long.

## **OUTLOOK**

### **For Financial Services – CFSG**

Looking ahead into 2005, we will continue to maintain our leadership in cost management and control, and at the same time, further expand our efforts to diversify our product mix and revenue sources. On the brokerage side, we will continue our strategy to accelerate the integration of our brokerage and wealth management businesses to achieve income growth as well as stability. Our goal is to perform well and outperform our peers across economic and market cycles.



The fast-growing wealth management business will remain as an integral part of our focus strategy to diversify our income streams. With a high savings-to-income ratio and a relatively low penetration of wealth management services in Hong Kong, business opportunity in wealth management is enormous. While competition seems to be intensifying, we are confident that we have established ourselves as a solid player in the industry through our strong brand recognition, extensive distribution coverage, and ability to provide a full array of financial products and services.

On the investment banking front, we expect to see fund-raising and financial advisory activities continue to grow. An increasing number of state-owned and private-sector enterprises in Mainland China have expressed interest to raise funds abroad and Hong Kong is still by far the preferred destination for international capital-raising. With a focus on medium-sized enterprises in Mainland China, our investment banking division has gained good presence in recent years and is now well-positioned to seize opportunities as they arise.

While there is cause for concern over the external economic environment such as a significant slowdown in the US and possibly in Mainland China, we remain cautiously optimistic on Hong Kong's economic resilience as well as our revenue and profit outlook. We are confident that we have built a strong platform over the past several years for moving our organisation forward. Our emphasis on a focused strategy as well as cost leadership in an increasing dynamic environment will, we believe, enable us to perform well across market cycles. At the same time, the steps we have taken to diversify our revenue sources will likely start to bear fruit in the years to come. With our commitment to excellence, dedication to servicing clients, and determination to create customer value, we are well-positioned to become the financial services house of choice for our clients through expanded product offerings, enhanced client experience, and cross-selling synergies.





### For Home Improvement – Pricerite

#### ***Moving Forward Towards a New Pricerite***

##### *Capturing Opportunities in the Changing Retail Market Environment*

The Pricerite board of directors is of a view that 2004 was a period in which the Group strengthened our basic elements in management and steered the strategic direction towards a more internationally based operation platform. While the year 2004 represented an improvement in the operating environment for Hong Kong retailers, it also exemplified the limitations of the Hong Kong retail markets in locally consumed products.

In 2004, we conducted a comprehensive market analysis of recent retail market trend in local Hong Kong economy. In all, the improvement in retail landscape comprised of two elements: a rebound in consumer demand following the revival of economy, and a fundamental change in consumer behaviour of both Hong Kong people and inbound tourists.

The change in consumer behaviour implied that nowadays consumers are more selective and focused on well-chosen ranges of specialised goods. In view of this, we will continue to increase our efforts in re-engineering our merchandise, so as to provide well-chosen ranges of furniture and household products to enhance our customer satisfaction. On the other hand, to meet the ever-increasing demand of customers for quality digital products, we will continue to build coalitions with our vendors, so as to further develop value-added services, such as free-downloads and infotainment related services, to our customers. Joint marketing programmes with merchants and credit card companies will also be launched. We are planning to expand the retail network of 3C Digital into prime shopping areas in 2005.

Moreover, to capture the growing business opportunities emerged in the international arena, Pricerite board of directors will continue to re-engineer the Group in order to migrate Pricerite into a global player in the furniture and household product supply chain market.



### *Leveraging and Further Sharpening Our Competitive Edges*

In our twenty years' of operation, Pricerite is well recognised as a leading retailer that delivers the best product selection and value. Down the road we will further our expertise in providing well-selected and value-for-money products to satisfy our customers' home improvement needs.

In order to offer the best value to our customers and at the same time to enhance our shareholder value, Pricerite will continue to streamline our operations and rationalise our operating costs. In the next five years, this will be achieved by consolidation of sourcing and back office support activities in our operations support centre in Shenzhen. Upon full function of our Shenzhen operations support centre by end of 2005, we will be able to further enhance our supply chain functions and smooth away operating wastage and non-essential cost elements. We will also be able to leverage on this operations support centre to further develop our international supply chain business.

