

RESEARCH REPORT
ON
JEWELLERY SECTOR
IN HONG KONG

Prepared by ICE HK
June 2005

INDEX

JEWELLERY INDUSTRY IN HONG KONG

	Page
1. INTRODUCTION	3
1.1 OVERVIEW OF HONG KONG JEWELLERY MARKET	3
1.2 LOCAL PRODUCTION	4
1.3 DISTRIBUTION CHANNELS	5
2. TRADE	8
2.1 IMPORTS	9
2.1.1 Trend	9
2.1.2 Major Supplying Countries	10
2.1.3 Product Range	11
2.1.4 Market trend in 2004	12
2.2 IMPORTS FROM ITALY	15
2.2.1 Trend	15
2.2.2 Product range	16
3. IMPLICATIONS OF CEPA	17
4 SUGGESTIONS FOR NEW ITALIAN OPERATORS IN THE LOCAL MARKET	19
USEFUL INFORMATION	21
APPENDIX 1	22
Trade Description Ordinance	
Trade Descriptions (Marking) (Gold and Gold Alloy) Order	22
Trade Descriptions (Definition of Platinum) Regulations	25
Trade Descriptions (Marking)(Platinum) Order	27

1. INTRODUCTION

Hong Kong jewellery industry can be divided into two main categories: precious metal jewellery and imitation jewellery. In terms of production and sales volume, precious metal jewellery gets the lion's share. Manufacturers in Hong Kong are specialized in creating contemporary design jewellery set with diamonds, precious and semi-precious stones as well as pearls. Jewellery "made in Hong Kong" is highly renowned all over the world and attains a higher standard of craftsmanship over their counterparts in other South East Asian countries; nevertheless it lags behind the state-of-art technology of Italy and Japan. In particular, Hong Kong leads the world in the production and consumption of 24kt gold

With Hong Kong's reunification with Mainland China, many manufacturers have moved their production facilities back to China, especially mass production and labour intensive jewellery. Shenzhen is developing at a fast pace in chain-making and jewellery casting from medium to low end price range; in Panyu county around 250 factories are found, the majority belongs to Hong Kong manufacturers that produces jewellery adorned with diamonds, precious stones and pearls. These companies maintain their facilities in Hong Kong for design output, management and control and not to mention the production of high end jewellery which requires a more skilled craftsmanship.

In view of the restructuring of the jewellery industry in Mainland China, the levels of efficiency and technology standard have improved as a result of joint venture with foreign producers like Hong Kong. Certain production phases are made in their factories in Southern China and subsequently ship back to Hong Kong for other value-added processes before delivery to overseas customers This phenomenon can explain an increase in imports and re-exports and a cut-throat competition existing not only in the local market, but also with Thailand, Singapore and Korea who profit either from a rich resources of raw materials or a rise in the production capacity.

1.1 OVERVIEW OF HONG KONG JEWELLERY MARKET

Hong Kong is famous for its craftsmanship and skill labour in jewellery set with precious stones, in particular jewellery mounted with diamond in 14K and 18K gold. Multi-faceted cut diamond rings combined with assorted colour precious stones are definitely the best-seller. While their European counterparts concentrate their efforts in producing high ticket value item and promote brand image, local manufacturers specialize instead in offering contemporary and innovative designs, with good quality and a competitive pricing strategy.

Even though Italian designs are famous all over the world, local importers find them too expensive due to a strong Euro and a high labour cost in Italy. As a result, demand for imports is quite limited for the high end jewellery.

Chuk kam jewellery or fine jewellery made of 24K gold is one of the popular product categories in the domestic market. In particular, Hong Kong is leading in the production of pure gold items. Chinese view chuk kam mainly as a financial asset because it can be easily converted into cash and that explains the reason why it is referred as “yellow gold”.

Local importers and wholesalers have over twenty years experience working with Italian chain manufacturers. The highest turnover in volume is gold chains which are well received in the market with a good quality standard and reasonable pricing. Silver and platinum follow suit. Market trend shows that white metal’s popularity is increasing among consumers in Hong Kong and Asia.

1.2 LOCAL PRODUCTION

According to Hong Kong Census & Statistics Department, the value of sales of local production for jewellery (excluding other jewellery and related articles, *Table 1*) in 2003 was HK\$4,013 million (around US\$ 514 million) in comparison with HK\$4,611 million (around US\$591 million) in 2002. The total number of establishments was 561 in September 2004 with a work force reaching 4,259, while 479 establishments were registered in the preceding year that produced over 86% of the total industry output (HS7113 % HS7117). With CEPA came into effect as of 1 January 2004, jewellery “made in Hong Kong” is eligible for zero tariff in China, which may account for the increase of production facilities in Hong Kong. Looking back at the historical data in 2002, the industry numbered 4,615 and the production of precious metal jewellery and imitation jewellery reached HK\$5,286 million (around US\$677.6 million).

In general, jewellery products made in Hong Kong can be classified in 3 categories:

- jewellery made of precious metal, mounted with diamond, gem jade, pearls, etc;

- jewellery made of precious metal, NOT mounted with diamond, gem jade, pearls, etc;

- OTHER jewellery and related articles made of precious metal or precious stones

As shown in Table 1, Hong Kong has diminished its production capacity in precious metal jewellery mounted with diamonds or various types of precious stones. Manufacturers established new factories in Shenzhen and Panyu, both within the Guangdong Provinces to capitalize on lower production cost for labour intensive jewellery.

Table 1

Value of sales of local production for Jewellery and related articles
2001 – 2003

Description	Value of sale of local production (HK\$'000)		
	2001	2002	2003
Jewellery of precious metal, mounted with diamond, gem, jade, pearls, etc.	3,364,050	3,883,486	2,932,516
Jewellery of precious metal, not mounted with diamond, gem, jade, pearls, etc.	380,588	635,109	537,782
Precious stones, cut and polished	1,441,858	*	153,160
Other jewellery and related articles made of precious metal or precious stones	*	93,332	390,194
Total	5,186,496¹	4,611,927¹	4,013,652

Source: Annual Survey of Industrial Production, Census & Statistics Department, Hong Kong Special Administrative Region of China

Note:

* Data are not released in order to safeguard confidentiality of information provided by individual establishments.

¹ Figure represents a partial value

1.3 DISTRIBUTION CHANNELS

A growing number of jewellery factories in Hong Kong either produce and distribute their own branded collection or enter into franchising agreement with other local companies. In fact some key players have established their own retail network in not only in Hong Kong, but also expanded into Mainland China, Taiwan and other South East Asian countries. As of September 2004, 493 jewellery manufacturers are registered (more than 479 recorded in 2003, but less than 522 in 2002 and 696 in 2000 when the industry flourished); while factories of imitation jewellery totalled 68 (were 79 in 2003, 113 in 2002 and 94 in 2001). Starting from 2004, number of jewellery establishments has risen slightly thanks to the Closer Economic Partnership Arrangement (CEPA) that came into effect on 1 January 2004. Eligible local operators are allowed to tap the huge jewellery market of Mainland China without having to pay import tariffs. Whereas general situation before 2004 has seen a decrease in production capacity as many factories were moved to Shenzhen and Panyu County in Guangdong Provinces, yet a surge in imports and re-exports.

Apart from the manufacturing aspect, imports of Italian jewellery by wholesalers and retailers were on the rise. According to Hong Kong Census & Statistics Department, as of December 2003, a total of 2,575 trading companies were

operating against 2,544 in the preceding year (2,265 in 2001 and 2,204 in 2000). The imported jewellery is consumed locally as well as re-exported to Mainland China, Philippines, Thailand, Japan and other Asian countries and even United States.

International fashion houses also command the production of jewellery to accessorize their garment collection – as in the case of Gucci, Prada, Chanel, YSL, Christian Dior, Versace etc. Jewellery is specially designed to complement the signature look of the fashion and is either sold in a specialized jewellery store or inside the boutiques.

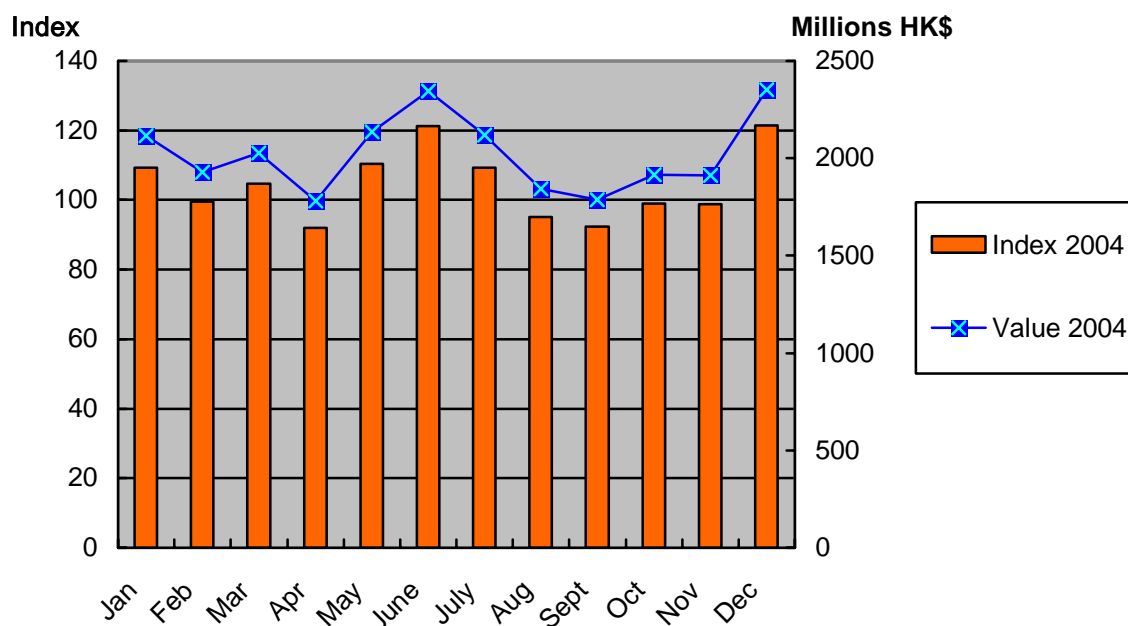
The jewellery retail market in Hong Kong caters both the needs of local residents and tourists alike, with sales to the latter accounts for 50% of total turnover. As of December 2004, sales of jewellery, watches and precious gifts increased by 11.1% in value in comparison to the same month of the previous year, reaching US\$301.4 million. A 5.3% year-on-year increase in volume was also registered. The total twelve-month period of 2004 showed a significant growth of 23% in terms of value against 2003. The luxurious sector had experienced a consolidation in 2001. Retail sales in jewellery, watches and precious gifts dropped 7% in value and 5% in volume in respect to 2000, reflected that local consumption had slowed down remarkably even if tourists sales rose 5% in 2001. This might be attributed to a lower propensity to spend from the part of the local people and the growing number of the Mainland tourists who considered sourcing jewellery and watches in Hong Kong for self-use or gift-giving.

Local government has also introduced various measures to attract tourists from other countries in the Asian region, in particular Mainland China. Hong Kong Tourism Board stated that a record figure of 21.81 million visitors arrived in Hong Kong during 2004, an increase of 40.4%. This was a positive sign showing that Hong Kong had come out from the aftermath of the SAR epidemic. In 2003, tourist arrival dropped 6.2% against 2002. On the other hand, tourists coming in from Mainland China following the “Individual Visit Scheme” boosted a 24.1% increase. As of July 2004, the Scheme has extended to residents from 30 Chinese cities. The government’s intention in building Hong Kong as one of the major tourist destinations benefit the jewellery sector, in terms of local production and retail sales.

On-line shopping has not diffused in Hong Kong as it has in other countries. As Hong Kong enjoys geographical proximity and local consumers have a habit to shop around before they buy. Jewellers face intense competition in price, design and quality.

Even though conducting business through internet, either B2B or B2C, gains momentum all over Asia especially Japan, Australia, South Korea and Taiwan, its development in jewellery sector in Hong Kong is still quite limited. Jewellers opened their websites as a major communication channel to release latest product information and to collect data from prospective clients. Hong Kong has a broadband network which is efficient and advanced.

**Value of retail sales of jewellery, watches and clocks, articles of gifts
in Hong Kong**



Source: data from Hong Kong Census & Statistics Department, elaborated by ICE Hong Kong

There were 2,224 retailers of fine jewellery & imitation jewellery in Hong Kong as of June 2004 compared with 2,241 a year earlier, a slight adjustment of 0.7% as a result of the consolidation of outlets. Whereas in 2003 recorded a year-on-year increase of 9.5% with 2,045 shops in 2002. This shows that the local market is under healthy competition and still has room to expand. Amongst the major local retailers are *Chow Sang Sang, Chow Tai Fook, 3D-Gold, Luk Fook, Tse Sui Luen, Continental Diamond, Edelweiss, Henri, Imperial, J's, Just Gold / Just Diamond, King Fook, Larry, Ma Belle, Mac Look, Madia, My Jewelry, Prince, The World Vision.*

International brand names with price bracket that targets the high-end market have a large following among local consumers and tourists. To name just a few, *Bulgari, Buccellati, Cartier, Tiffany, Piaget, Van Cleef & Arpels, Folli Follie, Mikimoto, Charriol, Damiani, Georg Jensen, etc.*

In recent years, local retail market introduces Italian designer jewellery like Anselmo & Bruni, Damiani, Stefan Hafner, Calgaro, Tramedoro etc to fill the existing niche.

2. TRADE

Hong Kong prides itself with a liberal economy which is dynamic and strongly tied with International trade and commerce. With practically very limited natural resources, Hong Kong depends heavily in imports and succeeded in transforming itself into a major finance and logistics centre in the world.

Including re-exports, Hong Kong is the second largest exporter of precious metal jewellery after Italy, amounting US\$2,227.6 million in 2003¹. The economic financial crisis that swept over Asia from 1997 to 1998 has resulted in the global slowdown in 2001, which reduced the exports of jewellery by 5% in total. In view of the gloomy economic situation coupled with the recession in Japan and the September 11 terrorist attack, consumers avoided to purchase luxurious goods at high ticket value. Local imports decreased by 7% in 2001.

In 2004, Hong Kong imported a total value of US\$1,896.26 million of precious metal jewellery, of which 40% came from China and which represented a year-on-year growth of 6.96%. Exports of jewellery also grew in the last 3 years: almost 19% in 2004; 17% in 2003 and 21% in 2002. The most important market for Hong Kong jewellery is the United States, with an increase of around 10% in 2004. Exports to countries in the European Community have also improved: an increase of 51% towards United Kingdom (+21% in 2003); 35.5% towards France (+53% in 2003); 9.9% towards Germany (+39% in 2003) and a record growth of 74.8% towards Italy (+41% in 2003).

After the economic turmoil in 2001, Hong Kong exports took a positive uptrend in the first 10 months of 2002 by showing a growth of almost 17%, reaching 20% by the end of the year. Exports to the United States have also seen a tremendous increment of 30%. While total exports in 2003 showed a year-on-year increase of 17% and an 11% increase towards the United States. Thanks to the strong Euro, member countries of the European Community increased their imports by 29% and sales towards Japan have shown a delightful increase. Even though local manufacturers were barred from exhibiting at Basel Fair due to SARS, they could still count a good year at the end. Exports continued at the same momentum in 2004 with an eye for further expansion.

On the other hand, exports towards Taiwan registered a decline of 4.2% after a robust increase of 41% in 2003. The Japanese market experienced a growth of 24.5% in 2004 in respect of 27% in 2003.

¹ Source: Hong Kong Trade Statistics, Census and Statistics Department; Commodity Trade Statistics, United Nations.

Table 2**Exports of Jewellery from Hong Kong**

HS	Exports & Re-exports (millions of \$USA)				% Change			
	2001	2002	2003	2004	2001	2002	2003	2004
7113	1,526.53	1,848.92	2,174.55	2,586.17	-1.80	21.40	17.61	18.93
7117	494.97	535.88	607.47	773.85	-0.10	8.30	-13.36	27.39
Total	2,021.50	2,384.80	2,782.02	3,360.02	-1.12	17.97	16.66	20.78

Source: data from Hong Kong Census & Statistics Department, elaborated by ICE Hong Kong

2.1 IMPORTS

Hong Kong imported over US\$1,896 million of jewellery and US\$255 million of imitation jewellery in 2004, represented an increment of 7% and 26.8% respectively. Whereas imports have recorded a significant growth of 45.9% (over US\$1,772 million in value) in jewellery and 8.3% in imitation jewellery (US\$201 million in value) in the preceding year.

Economic recession in the past years has changed the general purchasing pattern towards more economic products, fortunately jewellery has always proved itself as a stable investment item and has sustained from a crash in sales.

Table 3**Imports of Jewellery in Hong Kong**

HS	Imports (millions of \$USA)				% Change			
	2001	2002	2003	2004	2001	2002	2003	2004
7113	1,019.40	1,214.89	1,772.80	1,896.26	-2.20	19.20	45.92	6.96
7117	174.79	185.51	201.00	255.03	1.70	6.90	8.35	26.88
Total	1,194.19	1,400.41	1,973.80	2,151.29	-1.67%	17.38%	40.94%	8.99%

Source: Hong Kong Census & Statistics Department, elaborated by ICE Hong Kong

2.1.1 Trend

Hong Kong is an important market for jewellery imports with a continuous increasing demand, hit only by a slight decline in 2001. Total imports rose from US\$1,019 million in 2001 to US\$1,772 million in 2003. The decline in import value registered in 1998 and 2001 was caused by external factors such as the

economic crisis in Asia as well as the September 11 terrorist attack and had no correlations with the internal restructuring of the market.

Imports began to pick up in 2002 showing a growth of 17.38% and reaching a total of US\$1,400 million by the end of the year. This trend has continued to climb in 2003 with an increase in around 46% in the precious metal jewellery sector (HS7113) and an 8.35% increase in imitation jewellery (HS7117) for a total of US\$1,973 million. In 2004, value of imports rose to over US\$2,151 million threshold, while precious metal jewellery enjoyed a lion's share of 88%, US\$1,896.2 million.

2.1.2 Major Supplying Countries

At the end of 2004, Italy has re-conquered the second position, after a full year, by exporting US\$283.8 million in value of precious metal jewellery (HS7113) to Hong Kong. Mainland China surpassed Italy from 1998 and since then has become the top supplying country to the Special Administrative Region. Italy registered a decrease in quantity and value in exports in 2001 and 2002 consecutively, still maintaining a firm hold in the second position until further challenged by South Korea in 2003, reducing the market share to 13.9%. In 2004, jewellery imported from Mainland China represented over one third of the market share and South Korea fell back to the third place with a drop of over 42% and a market share of 13% against 25% in the preceding year.

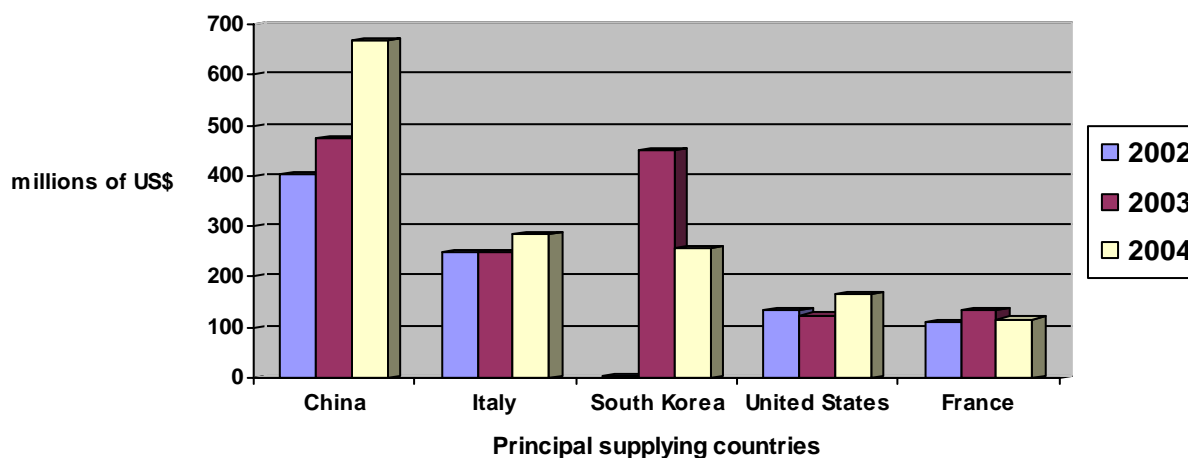
Table 4

Hong Kong Imports of Articles of Jewellery and Parts thereof, of Precious metal or metal clad with precious metal (value: US\$) (HS7113) (Jan-Dec)

Rank	Country	Millions US\$			% Share			% Change
		2002	2003	2004	2002	2003	2004	04/03
0	--World--	1,214.89	1,772.80	1,896.26	100	100	100	6.96
1	China	402.22	474.30	667.99	33.11	26.75	35.23	40.84
2	Italy	248.45	248.03	283.38	20.45	13.99	14.94	14.25
3	Korea, South	4.74	450.26	257.76	0.39	25.4	13.59	-42.75
4	United States	135.56	123.96	165.40	11.16	6.99	8.72	33.42
5	France	110.51	134.61	116.59	9.1	7.59	6.15	-13.38
6	Switzerland	0.00	53.16	71.71	0	3	3.78	34.89
7	India	35.52	32.28	44.64	2.92	1.82	2.35	38.3
8	Thailand	19.46	23.01	25.30	1.6	1.3	1.33	9.96
9	United Kingdom	13.03	21.33	23.74	1.07	1.2	1.25	11.28
10	Japan	18.43	16.55	16.92	1.52	0.93	0.89	2.26

Source: Hong Kong Census and Statistics Department, elaborated by ICE Hong Kong

**Articles of jewellery and parts thereof, of precious metal or metal clad with
precious metal (HS7113)
January - December**



2.1.3 Product Range

Hong Kong imported around US\$1,577 million of gold jewellery in 2003 (HS71131910), represented a year-on-year increase of 51.1%. Gold trading enjoys no restriction and there is a fixing of local gold price index in Hong Kong. Fashion trend also needs jewellery to accessories the total look, contributing to the demand in contemporary designs.

In terms of volume, Hong Kong imported less silver jewellery than gold jewellery. Target consumers are relatively young in the age bracket who have less disposable income but nevertheless follows the latest fashion trend. US\$162 million (HS71131100) of silver jewellery in terms of value are imported in Hong Kong in 2003, an increase of 22% over the previous year.

Consumption of platinum (HS71131920) is trivial when comparing with other precious metals like gold and silver. Imports continued to decline showing a decrease of 16% and 15% were registered respectively in 2002 and 2003.

Imports of imitation jewellery in Hong Kong totalled US\$ 201 million in 2003, an increase of 8% over 2002.

Mainland China remained as the most important supplying country with its market share continuing to expand, reaching 79.8% in 2003. Chinese-made imitation jewellery is well recognized for its good quality and competitive price.

Germany got 4% of the market share and was in the second position, while Italy ranked 7th and occupied slightly over 1% of the total imports, equivalent to US\$2.27 million (year-on-year increase of 27%).

2.1.4 Market trend in 2004

Hong Kong Census and Statistics Department has made modifications on HS codes since beginning of 2004:

HS codes before 2004	New HS In 2004	Description
71131910	71131911	Articles Of Jewellery And Parts Thereof, Diamond Mounted Or Set, Of <u>Gold</u> , Whether Or Not Plated Or Clad With Other Precious Metal
	71131919	Articles Of Jewellery And Parts Thereof, Diamond Not Mounted Or Set, Of <u>Gold</u> , Whether Or Not Plated Or Clad With Other Precious Metal
71131100	71131110	Articles Of Jewellery And Parts Thereof, Diamond Mounted Or Set, Of <u>Silver</u> , Whether Or Not Plated Or Clad With Other Precious Metal
	71131190	Articles Of Jewellery And Parts Thereof, Diamond Not Mounted Or Set, Of <u>Silver</u> , Whether Or Not Plated Or Clad With Other Precious Metal
71131920	71131991	Articles Of Jewellery And Parts Thereof, Diamond Mounted Or Set, Of <u>Other Precious Metal</u> , Whether Or Not Plated Or Clad With Other Precious Metal
	71131999	Articles Of Jewellery And Parts Thereof, Diamond Not Mounted Or Set, Of <u>Other Precious Metal</u> , Whether Or Not Plated Or Clad With Other Precious Metal

With the more detailed breakdown on the 8-digit HS codes, trade figures divide precious metal jewellery set with or without diamonds. In 2004, Hong Kong imported US\$920.6 million of gold jewellery mounted with diamonds (HS71131911) while gold jewellery without diamonds (HS71131919) amounted to US\$741.1 million. On the other hand, silver jewellery set with diamonds (HS71131110) reached US\$27.9 million and without diamonds (HS71131190) arrived at US\$166.2 million as silver in general is not considered as an investment item.

As imports of platinum from 2001 to 2003 have not been significant, there will not be a separate category for tabulation starting from 2004. Platinum is grouped under precious metal other than gold or silver. Jewellery in other precious metal set with diamonds (HS71131991) totalled US\$ 27.1 million while without diamonds (HS71171999) amounted US\$9.5 million.

In 2004, imports of gold jewellery whether mounted with or without diamonds (HS71131911 & HS71131919) constitute an important amount of US\$1,661.75 million. For gold jewellery set with diamonds, Mainland China alone grasped a market share of 37.4%, to be followed by United States (11.3%), France (10.8%). Italy overtook the rest of the world in supplying Hong Kong with gold

jewellery not mounted with diamonds, occupying 31.9% of market share. South Korea and Mainland China followed with 30% and 25.6% respectively of total imports.

Table 5a

**Hong Kong total imports of gold jewellery mounted with diamonds
(71131911)
January - December**

Rank	Country	Millions \$US			% share			% change
		2002	2003	2004	2002	2003	2004	04 / 03
0	--World--	0.00	0.00	920.59	100.00	100.00	100.00	0.00
1	China	0.00	0.00	344.85	0.00	0.00	37.46	0.00
2	United States	0.00	0.00	104.20	0.00	0.00	11.32	0.00
3	France	0.00	0.00	100.20	0.00	0.00	10.89	0.00
4	Switzerland	0.00	0.00	64.13	0.00	0.00	6.97	0.00
5	India	0.00	0.00	40.98	0.00	0.00	4.45	0.00
6	Korea, South	0.00	0.00	34.46	0.00	0.00	3.74	0.00
7	Italy	0.00	0.00	28.30	0.00	0.00	3.07	0.00
8	United Kingdom	0.00	0.00	20.42	0.00	0.00	2.22	0.00
9	Thailand	0.00	0.00	9.40	0.00	0.00	1.02	0.00
10	United Arab Emirates	0.00	0.00	9.29	0.00	0.00	1.01	0.00

Source: Hong Kong Census & Statistics Department, elaborated by ICE Hong Kong

Table 5b

**Hong Kong total imports of gold jewellery NOT mounted with diamonds
(71131919)
January - December**

Rank	Country	Millions \$US			% share			% change
		2002	2003	2004	2002	2003	2004	04/03
0	--World --	0.00	0.00	741.16	100.00	100.00	100.00	0.00
1	Italy	0.00	0.00	236.61	0.00	0.00	31.92	0.00
2	Korea, South	0.00	0.00	222.56	0.00	0.00	30.03	0.00
3	China	0.00	0.00	189.72	0.00	0.00	25.6	0.00
4	United States	0.00	0.00	30.05	0.00	0.00	4.06	0.00
5	France	0.00	0.00	15.01	0.00	0.00	2.03	0.00
6	Turkey	0.00	0.00	7.70	0.00	0.00	1.04	0.00
7	Germany	0.00	0.00	4.30	0.00	0.00	0.58	0.00
8	Greece	0.00	0.00	3.52	0.00	0.00	0.47	0.00
9	Switzerland	0.00	0.00	3.37	0.00	0.00	0.45	0.00
10	Japan	0.00	0.00	3.31	0.00	0.00	0.45	0.00

Source: Hong Kong Census & Statistics Department, elaborated by ICE Hong Kong

Referring always to the same period in 2004, imports of silver jewellery mounted with or without diamonds (HS71131110 & HS71131190) amounted to US\$194.13 million. Mainland China undoubtedly ranked first for the two categories, with a majority market share of 82.5% for silver jewellery set with diamonds and 63.3% without diamonds thanks to low labour cost and utilization of advanced technology in machinery.

Table 6a

**Hong Kong total imports of silver jewellery mounted with diamonds
(71131110)
January - December**

Rank	Country	Millions \$USA			% Share			% Change
		2002	2003	2004	2002	2003	2004	04 / 03
0	--World--	0	0	27.94	100.00	100.00	100.00	0.00
1	China	0	0	23.06	0.00	0.00	82.53	0.00
2	Italy	0	0	2.15	0.00	0.00	7.69	0.00
3	United States	0	0	1.41	0.00	0.00	5.05	0.00
4	Thailand	0	0	0.76	0.00	0.00	2.73	0.00
5	France	0	0	0.14	0.00	0.00	0.49	0.00
6	India	0	0	0.11	0.00	0.00	0.38	0.00
7	Spain	0	0	0.05	0.00	0.00	0.17	0.00
8	Switzerland	0	0	0.04	0.00	0.00	0.16	0.00
9	Germany	0	0	0.04	0.00	0.00	0.14	0.00
10	Japan	0	0	0.03	0.00	0.00	0.13	0.00

Source: Hong Kong Census & Statistics Department, elaborated by ICE Hong Kong

Table 6b

**Hong Kong total imports of silver jewellery NOT mounted with diamonds
(71131190)
January - December**

Rank	Country	Millions \$USA			% Share			% Change
		2002	2003	2004	2002	2003	2004	04 / 03
0	--World--	0.00	0.00	166.20	100.00	100.00	100.00	0.00
1	China	0.00	0.00	105.31	0.00	0.00	63.37	0.00
2	Italy	0.00	0.00	15.98	0.00	0.00	9.61	0.00
3	United States	0.00	0.00	12.56	0.00	0.00	7.56	0.00
4	Thailand	0.00	0.00	12.20	0.00	0.00	7.34	0.00
5	Greece	0.00	0.00	5.54	0.00	0.00	3.34	0.00
6	Indonesia	0.00	0.00	4.79	0.00	0.00	2.88	0.00
7	Germany	0.00	0.00	4.07	0.00	0.00	2.45	0.00
8	Japan	0.00	0.00	1.26	0.00	0.00	0.76	0.00
9	France	0.00	0.00	0.84	0.00	0.00	0.51	0.00
10	Switzerland	0.00	0.00	0.79	0.00	0.00	0.48	0.00

Source: Hong Kong Census & Statistics Department, elaborated by ICE Hong Kong

2.2 IMPORTS FROM ITALY

Hong Kong imported over US\$283 million of precious metal jewellery (HS7113) from Italy in 2004, accounting for a year-on-year increase of 14.2%. Italy remained to the second most important supplying country, obtaining a market share of 14.9%, and was around half of Mainland China's market share, which was the top on the list.

Comparing with 2003, Italy exported over US\$248 million of precious metal jewellery to Hong Kong, represented an extremely slight decrease of 0.17% against the previous year. Italy retained a market share of around 14% after Mainland China (26.7%) and South Korea (25.4%).

2.2.1 Trend

Trade figures from 2004 showed a positive sign. Local economy has finally picked up from the adverse effects caused by the SARS epidemic in 2003 thanks to the introduction of "Individual Visit Scheme". Such a measure facilitates the issuance of visas to Chinese citizens from designated provincials who wish to travel to Hong Kong.

Jewellery "made in Italy" is well sought after for its quality standard and designs due to a long tradition of craftsmanship and jewellery making. Plain and fancy gold chains in 18K have a strong demand in the local market. Branded Italian jewellery such as Stefan Hafner, Marco Bicego and Calgaro are sold through large retail chain stores; while long established names like Buccellati and Bvlgari have their own jewellery shops. Importers tend to keep a wide range of stock in necklaces, bracelets, earrings, rings and pendants etc to serve (1) local jewellery stores; (2) wholesalers from China and other Asian countries. Hong Kong is a major regional distribution centre for chains supplying to various countries in Asia other than Japan.

Italy exported US\$248 million of precious metal jewellery to Hong Kong in 2003, equivalent to 13.9% of market share and was positioned as the third major supplying country.

Before 1998, Italy always ranked top in terms of supplying precious metal jewellery to Hong Kong, only to be overtaken by Mainland China after various trade deregulation initiatives adopted by the government to boost economy. Attractive labour cost has induced many local manufacturers to move their factories to the southern part of Mainland China. Increase in imports from Mainland China and the consequent decrease in the market share of Italy do not necessarily imply that Italy cannot further expand its export value and volume, just as happened before in 2002 with very positive outcome.

2.2.2 Product Range

Gold spearheads the exportation of jewellery leaving other precious metal well behind. In 2004, 89% of precious metal jewellery exported from Italy belongs to the category of gold jewellery without diamonds (HS71131919), reaching US\$236.61 million and a market share of around 32%; gold jewellery set with diamonds (HS71131911) accounted only US\$28.3 million which is equivalent to 3% of Hong Kong's total imports. Silver jewellery without diamonds (HS71131190) showed an upward trend with a 9.61% market share and a value of US\$15.98 million.

To take one step backward to 2003, gold jewellery (previous HS code 71131910) registered a total value of US\$231.8 million, followed by silver jewellery (previous HS code 71131100) of US\$15 million and platinum jewellery (previous HS code 71131920) of US\$1 million.

Silver jewellery took a leap in 2003. Exports rose 47% compared to the previous year.

The negative trend of platinum jewellery continued in 2003 with a decline of over 53%.

3. IMPLICATIONS OF CEPA

The Mainland China and Hong Kong Closer Economic Partnership Arrangement (CEPA) was concluded in 29 June 2003. Fine jewellery made in Hong Kong will enjoy duty-free access to the mainland market from 1 January 2004, whereas non-Hong Kong made counterparts will remain subject to tariffs ranging from 20% – 35% (*Table 17*). CEPA also opens the possibility for Hong Kong operators to engage in wholesale and retail distribution, Hong Kong jewellers will have an easier access to the mainland market than other foreign suppliers. Although not all foreign companies will shift their manufacturing plants to Hong Kong after the signing of CEPA, the Agreement may attract more niche manufacturing operations to the territory.

Updates are available from the official website of The Hong Kong Trade and Industry Department: www.tid.gov.hk/english/cepa/files/mainland_2005.pdf.

Thanks to CEPA, distribution channels are opened up to Hong Kong companies who are interested to engage in wholesale or retail business. Wholly-owned retail operations can be conducted by Chinese permanent residents of Hong Kong in the Guangdong Province.

Tabella 7

HS codes 2005 China	Product description 2005	Committed rate (%) under WTO Agreement
71023100	Diamond rough or non-industrial use cut diamond	3%
71131110	Articles Of Jewellery And Parts Thereof, Diamond Mounted Or Set, Of <u>Silver</u> , Whether Or Not Plated Or Clad With Other Precious Metal	20%
71131190	Articles Of Jewellery And Parts Thereof, Diamond Not Mounted Or Set, Of <u>Silver</u> , Whether Or Not Plated Or Clad With Other Precious Metal	20%
71131911	Articles Of Jewellery And Parts Thereof, Diamond Mounted Or Set, Of <u>Gold</u> , Whether Or Not Plated Or Clad With Other Precious Metal	20%
71131919	Articles Of Jewellery And Parts Thereof, Diamond Not Mounted Or Set, Of <u>Gold</u> , Whether Or Not Plated Or Clad With Other Precious Metal	20%
71131991	Articles Of Jewellery And Parts Thereof, Diamond Mounted Or Set, Of <u>Other Precious Metal</u> , Whether Or Not Plated Or Clad With Other Precious Metal	35%
71131999	Articles Of Jewellery And Parts Thereof, Diamond Not Mounted Or Set, Of <u>Other Precious Metal</u> , Whether Or Not Plated Or Clad With Other Precious Metal	35%
71132010	Articles of Jewellery and Parts Thereof, Diamond Mounted Or Set, Of <u>Base Metal</u> clad with precious metal	35%

71132090	Articles of Jewellery and Parts Thereof, Diamond Not Mounted Or Set, Of <u>Base Metal</u> clad with precious metal	35%
71141100	Silversmiths' wares & parts thereof, of precious metal	35%
71141900	Goldsmiths' wares & parts thereof, of precious metal	35%
71142000	Gold/silversmiths' wares & parts thereof, of base metal clad with precious metal	35%
71159090	Articles in precious metal or base metal clad with precious metal, for various applications	35%
71161000	Articles of natural or cultured pearls	35%
71162000	Articles of precious or semi-precious stones	35%
71171100	Cuff links and studs in metal	35%
71171900	Other imitation jewellery in metal	17%
71179000	Imitation jewellery in various materials other than those specified elsewhere	35%

Fonte: Hong Kong Trade and Industry Department

Jewellery articles belonging to the HS codes listed in the above table, if qualified under the CEPA, can be admitted into Mainland China with zero tariff.

4 **SUGGESTIONS FOR NEW ITALIAN OPERATORS IN THE LOCAL MARKET**

- ***Market demand***

Mainland tourists will be the potential customers in the future; Italian jewellers must improve their understanding of the market needs in order to develop products and services more in line with the consumers' needs; to maintain regular dialogues and to conduct market researches with the assistance of Hong Kong importers or agents; to be updated about the policy changes and market directions; and to identify potential partners for the sake of developing new sales networks.

- ***Delivery***

Since late delivery is a relatively serious problem faced by importers in Hong Kong, Italian suppliers need to improve their lead time in production in accordance with the agreed delivery schedule.

- ***Response & reply***

Communication is very important in business sector. Local importers complained about the high percentage rate of no response and reply when dealing with Italian suppliers. As a result, orders had to be cancelled eventually due to no follow up action from Italy. To maintain a good trading relationship with local importers, Italian suppliers must react faster and to answer enquiries in any circumstances.

- ***Quality***

Hong Kong importers are not satisfied with the quality control conducted by Italian suppliers in general. Some orders shipped out from Italy are not packed according to the instructions; or merchandise is found to be in poor quality. Suppliers from Italy should pay more attention to quality control since consistency in quality is always a prime concern in business.

- ***Design***

Hong Kong importers claimed that the design of Italian jewellery is more or less the same in recent years. To increase competitiveness in the world market and to satisfy customer's needs, innovative design is very important. Italian jewellery manufacturers are suggested to allocate more resources on jewellery design and development.

- ***Price***

The price of Italian jewellery, especially chains, is reasonable to local importers and retailers due to keen competition among suppliers in Italy. Few importers believe that cut-throat competition would endanger the Italian industry if suppliers slash the price too low.

- ***Trade Fairs in Hong Kong***

To increase product exposure in the local market and to establish new business relationships with local operators, Italian companies are encouraged to exhibit in various important international jewellery exhibitions in Hong Kong. Major trade fairs in Hong Kong include International Jewellery Show (March), Asia's Fashion Jewellery and Accessories Fair (June), June Hong Kong Jewellery & Watch Fair (June), and September Hong Kong Jewellery and Watch Fair (September) in Hong Kong. Starting from 2006, a newly organized fair Hong Kong January Jewellery & Watch Show will take place at the AsiaWorld-Expo, adding another occasion for trade operators to meet with potential buyers.

-End-

USEFUL INFORMATION

Jewellery Trade Fairs in Hong Kong

Fair Name	Month	Organiser	Website
The Hong Kong January International Jewellery & Watch Show	January	World Trade Fair Ltd	www.januaryshow.com
Hong Kong International Jewellery Show	March	Hong Kong Trade Development Council	http://hkjewellery.com
Hong Kong Jewellery & Watch Fair	June	CMP Asia Ltd	www.cmpasia.com
June Hong Kong Jewellery & Watch Fair	June	CMP Asia Ltd	www.cmpasia.com
Asia's Fashion Jewellery & Accessories Fair	June & Sept	CMP Asia Ltd	www.cmpasia.com
September Hong Kong Jewellery & Watch Fair	Sept	CMP Asia Ltd	www.cmpasia.com
Hong Kong Jewelry Manufacturers' Exhibition	Nov	Hong Kong Jewelry Manufacturers' Association	www.jewelrysthows.org

Associations

There are several jewellery associations in Hong Kong. The aim of those associations is to provide services to the members, to support and protect the local manufacturers in order to reinforce the status of the local jewelers not only in Hong Kong but also around the world.

<u>Associations</u>	<u>Website</u>
Diamond Federation of Hong Kong, China Ltd	www.diamondfederationhk.com
Hong Kong Jewellery & Jade Manufacturers Association	www.jewellery-hk.org
Hong Kong Jewellery Industrial Technology Centre	www.hkpc.org/hkjitc
Hong Kong Jewelry Manufacturers' Association	www.jewelry.org.hk
Hong Kong Pearl Association	www.hkpearlassn.org
The Chinese Gold & Silver Exchange Society	www.cgse.com.hk
The Diamond Importers Association Ltd	www.jewelrynet.com
The Gemmological Association of Hong Kong Ltd	nil

APPENDIX 1

Trade Description Ordinance

Chapter 362A

Trade Descriptions (Marking) (Gold and Gold Alloy) Order

Application

This order shall apply to articles of gold or gold alloy containing not less than 8 carats or of a fineness of not less than 333.

Articles to be marked

- (1) every article of gold or gold alloy that is supplied or offered for supply by any person in the course of trade or business shall bear a mark -
 - (a) in arabic numerals clearly indicating in carats, by number or by number and the letters "k", "c" or "ct" the fineness of the gold content in accordance with the standards of fineness specified in the "**Standards of Fineness**"; or
 - (b) in arabic numerals clearly indicating in parts per thousand the fineness of the gold content; or
 - (c) consisting of the Chinese characters "足金" (Chuk Kam).
- (2) each number or character of the mark specified in sub-paragraph (1) shall not be smaller than 0.5 mm² in size.

Articles of differing fineness

- (1) an article mentioned in "**Articles to be marked**" consists of different parts which are of different finenesses of gold or gold alloy, then either-
 - (a) each part shall be marked as if it were a separate article; or
 - (b) one mark shall be affixed which shall be that of the fineness of the article as a whole.
- (2) an article mentioned in "**Articles to be marked**" consists of different parts one or more of which are of gold or gold alloy and another or other of which are of another metal, the part or parts which are of gold or gold alloy shall be marked under "**Articles to be marked**" and the other part or parts shall be described in the invoice or receipt supplied under "**Supply to be accompanied by written particulars**".
- (3) Where-
 - (a) in the case of an article the main body of which is of Chuk Kam

- standard, the solder used is of a fineness of not less than 800;
- (b) in the case of an article the main body of which is of a 916.6 standard, the solder used is of a fineness of not less than 750;
 - (c) in the case of filigree work or a watch case, the main body of which is of a 750 standard, the solder used is of a fineness of not less than 740;
 - (d) in the case of a white gold article the main body of which is of a 750 or 585 standard, the solder used is of a fineness of not less than 500, and if the solder constitutes not more than 5 per cent of the finished article, the finished article may be marked with the standard of fineness of the main body.

Supply to be accompanied by written particulars

- (1) Any person who, in the course of trade or business, supplies any article of gold or gold alloy shall, at the time of supply, deliver to the person to whom the article is supplied an invoice or receipt which shall contain-
 - (a) the full name and address of the supplier;
 - (b) details of the mark required under "Articles to be marked", and where appropriate,-
 - (c) a description of the parts of the article of gold, and a description of the parts of other metal;
 - (d) a description of the parts of the article of different finenesses;
 - (e) a description of any article or part of any article exempted by virtue of the "**Exempted Articles**".
- (2) A supplier shall retain a copy of the invoice or receipt issued in accordance with sub-paragraph (1) for a period of not less than 3 years after the date of issue.

Notice to be displayed

No article made of gold or gold alloy shall be supplied or offered for supply in the course of trade or business unless there is displayed at the point of supply or offer for supply a notice in the manner and form specified in the Third Schedule. The size of the notice must not be less than 210 mm x 297 mm, and the size of the letters and characters should not be less than 5 mm in height.

Surface treated articles

If an article with a surface treatment of gold is marked with words describing such treatment which include the word "gold", the other words in such description shall not be less prominent than the word "gold".

Standard of fineness

The standards of fineness (that is the number of parts by weight of gold in one thousand parts by weight of alloy) are-

Standard	Fineness, not less than
8 carat	333
9 carat	375
12 carat	500
14 carat	585
15 carat	625
18 carat	750
22 carat	916.6
Chuk Kam (足金)	990

and so in proportion for any other number of carats.

Exempted articles

Remarks:

1. Any coin which is, or was formerly at any time, current coin of Hong Kong or elsewhere. (65 of 2000 s. 3)
2. Any article which has been used, or is intended to be used, for medical, dental, veterinary, scientific or industrial use.
3. Any article of gold thread.
4. Any raw material (including any bar, plate, sheet, foil, wire, strip or tube) or bullion.
5. Any article or part of an article which is so small or thin as to render the marking thereof impracticable, and which is less than 1 gram in weight.
6. Any article manufactured more than 100 years ago provided that this is so stated in the invoice or receipt required by point 1 of “**Supply to be accompanied by written particulars**” of the order.

Chapter 362B

Trade Descriptions (Definition of Platinum) Regulations

Definition of platinum

- (1) The expression "platinum" or the Chinese characters "足白金" (Chuk Pak Kam), when used in any trade or business means platinum or a platinum alloy having a standard of fineness specified in "**Standard of fineness**".
- (2) The letters "PT" and arabic numerals indicating the fineness of platinum content or the Chinese characters "足白金" (Chuk Pak Kam), when used in any trade or business, mean platinum or platinum alloy of a fineness by weight of not less than the fineness specified by the marking.
- (3) An article shall not be described as "platinum" or "platinum alloy" if it is of a fineness of less than 850 parts of platinum in 1000 parts by weight of alloy.
- (4) The solder used in an article described as "platinum" or by the letters "PT" and arabic numerals indicating fineness of platinum content or the Chinese characters "足白金" (Chuk Pak Kam) shall not be less than 95 percent by weight of gold, platinum, palladium or silver or a combination of 2 or more of them and shall not be less than 50 per cent by weight of gold, platinum or palladium or a combination of 2 or more of them.
- (5) If an article with a surface treatment of platinum is marked with words describing the treatment which include "platinum", the other words in the description shall be not less prominent than the word "platinum".

Standard of Fineness

The standards of fineness (that is the number of parts by weight of platinum in 1000 parts by weight of alloy) are-

Standard	Fineness, not less than
Chuk Pak Kam (足白金)	990
PT 990	990
PT 950	950
PT 900	900
PT 850	850

Exempted articles

1. Any coin which is, or was formerly, current coin of Hong Kong or elsewhere. (65 of 2000 s. 3)

2. Any article which has been used, or is intended to be used, for medical, dental, veterinary, scientific or industrial use.
3. Any article of platinum thread.
4. Any raw material (including any bar, plate, sheet, foil, wire, strip or tube) or bullion.
5. Any article or part of an article which is so small or thin as to render the marking of it impracticable, and which is less than 2 grams in weight.
6. Any article manufactured more than 100 years ago, if this is so stated in writing on sale or transfer.

Chapter 362C

Trade Descriptions (Marking)(Platinum) Order

Prohibition on supply of unmarked articles

No person shall supply or offer to supply an article of platinum in the course of any trade or business unless it is marked in accordance with this order.

Marking of articles

- (1) Subject to “**Prohibition on supply of unmarked articles**”, every article of platinum that is supplied or offered for supply in the course of any trade or business shall bear a mark consisting of-
 - (a) the letters "PT" and arabic numerals; or
 - (b) the Chinese characters "足白金" (Chuk Pak Kam), according to the fineness of the article being a standard of fineness specified in “**Standard Fineness**”.
- (2) Each letter, number or character of the mark specified in sub-paragraph (1) shall not be smaller than 0.5 mm² in size.
- (3) This paragraph shall not apply to any article specified in “**Exempted Articles**”.

Articles of differing fineness

- (1) Subject to subparagraph (4), where an article mentioned in “**Marking in articles**” consists of different parts which are of different finenesses of platinum, then either-
 - (a) each part shall be marked as if it were a separate article; or
 - (b) one mark shall be affixed which shall be that of the fineness of the article as a whole.
- (2) Where an article mentioned in “**Marking in articles**” consists of different parts one or more of which are platinum and another or others are of another metal, the part or parts of which are platinum shall be marked under in “**Marking in articles**” and the other part or parts shall be described in the invoice or receipt supplied under “**Supply to be accompanied by written particulars**”.
- (3) The solder used in an article shall not be less than 95% by weight of gold, platinum, palladium or silver or a combination of 2 or more of them, and shall not be less than 50% by weight of gold, platinum or palladium or a combination of 2 or more of them.

- (4) Where the solder of an article constitutes not more than 5% of the finished article, the finished article may be marked with the standard of fineness of the main body.

Supply to be accompanied by written particulars

- (1) Any person who, in the course of trade or business, supplies any article of platinum shall, at the time of supply, deliver to the person to whom the article is supplied an invoice or receipt which shall contain-
- (a) the full name and address of the supplier;
 - (b) details of the mark required under "Articles to be marked" and where appropriate-
 - (i) a description of the parts of the article of platinum and a description of the parts of other metal;
 - (ii) a description of the parts of the article of different finenesses; and
 - (iii) a description of any article or parts of any article exempted by "**Exempted articles**".
- (2) A supplier shall retain a copy of the invoice or receipt issued under subparagraph (1) for a period of not less than 3 years after the date of issue.

Notice to be displayed

- (1) No article made of platinum shall be supplied or offered for supply in the course of trade or business unless there is displayed prominently to all customers at the point of supply or offer to supply a notice in the form specified in Schedule 3.
- (2) The notice shall be not less than 210 mm x 297 mm in size and the letters, figures and characters shall be not less than 5 mm in height.

Surface treated articles

If an article with a surface treatment of platinum is marked with words describing the treatment which include "platinum", the other words in the description shall be not less prominent than the word "platinum".