

# CHAIRMAN'S STATEMENT

PEACE MARK (HOLDINGS) LIMITED  
Annual Report 2001



*Chairman: Mr. Chau Cham Wong, Patrick*

On behalf of the Board, I am pleased to present to all shareholders the financial performance and position of the Company and the Group for the year ended 31st March, 2001.

## RESULTS

For the year under review, the consolidated turnover of the Group was HK\$852.4 million representing a 3.8% increase as compared to last year. The profit attributable to shareholders of the Group was HK\$35.0 million up 103.0% as compared to last year. The satisfactory financial performance of the group for this year is as a consequence of the Group's defined strategy of focusing in the core business. The gross profit margin maintained at 15.1% (13.8% for last year), though there was a sign of intensifying competition in the second half of the year.

For investments in securities a realised loss of HK\$14.0 million, before taking into account the realisation of unrealised holding gain of HK\$7.4 million recognised in prior year, was recorded thereby reducing the profit attributable to shareholders to the same extent. A net unrealised holding loss of HK\$17.9 million was carried in the reserve to reflect the market value of the investment portfolio of the securities at the year end.

## DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

With a view to reserving adequate funds for the Group's business growth, the Directors have resolved not to recommend



*Green environment in factory site*



*Main factory in the PRC*

the payment of dividend for the year ended 31st March, 2001. The Register of Members of the Company will be closed from 28th August, 2001 to 31st August, 2001 (both days inclusive) for the purpose of establishing entitlement of shareholders to vote at the forthcoming Annual General Meeting to be held on 31st August, 2001.

## REVIEW

### Timepiece export industry

In general, the timepiece export of Hong Kong achieved a rebound by 4% to HK\$44 billion in 2000. In particular, the USA grew by 4%; the EU declined by 3% and Asia (not including China) surged by 10%. However, the over-investment in the IT sectors and the subsequent equity market setbacks in the USA has slowed down the momentum of rebound since last quarter of 2000. The consumer confidence in the USA has been adversely affected causing less-than-expected retail activities. The EU was adversely affected by the weakness in Euro in 2000. Both the US and the EU markets are expected to moderate in 2001.

### A more value-added business model

In the past few years, Peace Mark has been transforming from an OEM to ODM manufacturer. With the rapid changing marketplace, Peace Mark has been re-positioning itself as an ODM and brandname manufacturer and distributor in the years to come. Brandname companies are increasingly focusing on marketing and sub-contracting design to us, thus market force is the driver of the change. The re-positioning is also on the back of our increased design capability and improved network with the overseas importers. The move has been building on the strong manufacturing foundation of Peace Mark. We are continuously adding value in the business thereby translating to higher profit margin. Umbro is a brand exemplified the transformation of the business model.

### Vertical integration

In Peace Mark, production is the foundation on which further business expansion and development are based. In FY2001, Peace Mark completed a substantial vertical integration including additional machinery and equipments for parts manufacturing, electroplating and laboratory testing. Vertical integration enables Peace Mark to have more control over the quality of our products. By means of placing less reliance on components suppliers, enhanced profit margin should result to offset the lowering price offered by customers as a consequence of US economic downturn and weakness in Euro.



*Assembly in progress*



*Water resistance testing*



*Stem cutting*

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These also give Peace Mark an edge over its competitors in soliciting orders as increasing consideration is being given by customers on production facilities and production management.

With the vertically integrated production facilities, we are capable of meeting the planned production schedules and handling orders with shorter lead time.

In the short-term, the depreciation charge arising from the capital expenditure will to a certain extent has impact on the financial performance. Nevertheless, the resultant enhanced cost control and higher-end customer portfolio should generate higher margin and more revenue sources in longer term.

## Market diversification

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In FY2001, the geographical breakdown of turnover was: the USA contributed 59.2%; the EU contributed 24.4% and Asia contributed 16.4%. The USA was the largest, yet highly competitive, market for us. Growth potential has been inevitably be affected by general economic downturn in near term. However, the trend of offering watches as an accessory item for various fashion and sport brandnames still making numerous ODM and licence business opportunities. Increasing casualisation has also been creating demand in the market. Peace Mark with its long-established network and experience in the US is poised to benefit from the turnaround of this significant mass market.

Asia Pacific region, in particular Japan, has been gradually expanded as planned with increasing ODM business opportunities and the phased launch of Umbro has been well prepared for the World Cup tournament to be held in Korea and Japan in 2002. Japan contributed to 10% of Hong Kong's total timepiece export with a growth recorded 7% in 2000. This is a result of value-for-money branded products being well-received by the market. Asia Pacific region with increasing significance in our marketing strategy, has been gradually establishing by agency and distributorship appointments.

On a corporate level, consideration will also be given to forming alliances with overseas importers to further strengthen and expand our distribution capability.

As part of the overall strategy, we are planning to set up after-sales services and domestic sales businesses in China, after the China's accession to WTO. Given the impediments encountered in the past, the China expansion strategy will be calculated to mitigate the possible risks with a view to maintaining the overall stability of the business.

## Production management and productivity

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On the production side, we are in the process of upgrading our work procedures to comply with ISO 9001, 2000 version. In addition to ISO 9001, we have also applied Japanese 5S management concept in production management in order to have a well-organised factory at all levels of operation. Following Hong Kong Productivity Council's awarding of Certificate of Merit in Productivity in last year, we are invited to be a candidate of the quality award in this year. These awards are reflections of the public's recognition of the Group's production management. Mr. Leung Yung, the Managing Director of the Company, currently serving

as a director of the Hong Kong Watch Manufacturer Association has assumed a role in promoting the Hong Kong watch industry globally and mapping out the blueprint for the industry going forward.

#### Trading transactions with EganaGoldpfeil Group

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As previously reported, the Group has been providing manufacturing support for the assembly of watches to EganaGoldpfeil (Holdings) Limited and its subsidiaries ("EganaGoldpfeil Group") for its onward sales to OEM customers. With a view to better servicing and following up after-sales, we have been directly selling the finished products to the OEM customers previously handled by EganaGoldpfeil Group instead of selling in the form of indent sales to EganaGoldpfeil Group. EganaGoldpfeil is pleased with the customer relationship and production efficiency of the Group in servicing its customers. As regards brandname products, we continue to have secured such orders from EganaGoldpfeil Group for mutual benefit.

In addition, due to the devaluation of the Euro currency for the year, the orders from OEM customers in Europe referred by EganaGoldpfeil Group had a lowering profit margin and having regard to the arm's length negotiation on an open commercial term consistent to our ongoing trading policy with EganaGoldpfeil Group, the Group has been selective in taking orders with margin in line with the Group's pricing policy.

The recent integration of Junghans GmbH into EganaGoldpfeil Group enables us to establish ourselves comfortably to solicit further orders on watches and clocks on open commercial terms.

#### PROSPECTS

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We, as a top-tier vertically integrated manufacturer, will continue to strive for improving production efficiency and upgrading production facilities in a bid to achieving better cost control, wider product range and securing stable revenue streams. We will capitalise on the manufacturing foundation and seek opportunity to expand distribution capability in order to add value along the supply chain. We continue to solicit brandnames on the basis of both ODM and licences. The business in general is transforming to cope with the global economic slowdown in the near future but prepare to reap the benefits in time of recovery. Upon the impending accession to WTO, we are planning the way to exploit the China domestic market and thereby widening the revenue base by phases. Looking forward, we have confidence to be resilient in the face of the forthcoming challenges.

#### APPRECIATION

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On behalf of the Board, I sincerely thank all the staff for their continuous dedication and support to the Group.



**Chau Cham Wong, Patrick**

*Chairman*

Hong Kong, 27th July, 2001