



Mr. Leung Yung, Tommy – *Managing Director*

Throughout the year, Peace Mark Group's management team continued to improve the overall efficiencies of existing and newly acquired operations while working closely with each division to develop long-term goals and strategies. These developments help us prepare for the ever-changing business developments taking place worldwide. The Group's ultimate goal is to enhance our future competitiveness within the global timepiece marketplace and to improve our abilities to meet the demands of our diverse customer groups.

*"Peace Mark is closely monitoring the progress of our Vertical Integration Strategy. Streamlining operating efficiencies between our manufacturing plants and downstream operations have enabled us to provide our existing and potential customers with unmatched one-stop services ranging from product design and engineering to after-sales follow-up and repairs."*

## CHINA

### *Production Facilities*

The Vertical Integration Strategy implemented over the past few years is showing encouraging results. Anticipated benefits such as margin improvements and lower yield losses are beginning to materialize and we are working closely with our production divisions to monitor this progress. Thanks to our well-coordinated and properly managed vertical integration process, we are now in an excellent position to receive additional Japanese orders, as we are able to monitor quality control at every level of our vertically integrated production process. Despite these positive results, we still make every effort to ensure our continuous improvement in our commitment to stay ahead of our peers. For example, Peace Mark was a pioneer in the implementation of ionized plating technology in the timepiece manufacturing industry. This technology is currently being fully exploited in our plating facility and we are producing watches with superior aesthetics and appearance. Additionally, we improved our component and mould-making capabilities even further, to make sure that our design and quality standards will meet the most stringent expectations in the most efficient manner.

### *After-Sales Services Center*

To better position ourselves in the China market, Peace Mark is planning to set up a network of after-sales services centers for watches in China. The network will be positioned and designed to serve the high-end market, and for Swiss-made watches in particular. The PRC after-sales services centers serves as a long-term strategic move to partner world-renowned timepiece companies and the Group has invited selected luxury brands to join forces with Peace Mark to explore this huge potential market. We have been negotiating with various luxury timepiece companies for authorized service agency agreements.

In 2001/02, we sent our employees to Switzerland for service and repair training. As a result, a major watch movement manufacturer has issued certificates to our employees in recognition of their professional timepiece repairing skills. This demonstrates the tremendous progress we have made in obtaining the necessary skills in servicing Swiss luxury watches.

We have been operating two after-sales services centers in Guangzhou since the end of 2002. The third after-sales services center in Shenzhen will begin its operation in July 2003. Fully equipped with Swiss equipment, the after-sales services centers serve as pilot centers for Peace





Mark. The after-sales services centers also help to facilitate and strengthen our negotiations with the world's leading brands, as we are able to demonstrate that we have both the necessary hardware and software capabilities to service high end watches. We expect expansion plans for the after-sales services centers to speed up towards the end of our negotiating processes with the world's luxury brands, as this will limit the business risk for the service centers' expansion plans.

We are also in the completion stages of setting up our training center within our facility grounds in Xixiang, China. This training center will help to support the expansion needs of our after-sales services centers and also our production facilities.

### *Distribution*

With regard to our geographical penetration, we will continue the expansion of our distribution network and sales channels to enable us to sell our products through local distributors to the retail level to capture maximum profit. Having evaluated the market, we will limit the possibilities of establishing our own retail stores in the short term.



In the PRC market, through our partnership with 18 reputable distributors with strong brand portfolios and credit histories, over 100 sales points have been established across the country. These distribution points range from world-leading department stores to specialist timepiece retail stores. Two brands, Pierre Cardin and Montana, are currently available at these distribution outlets and we are preparing to further introduce two other brands, Umbro and Fiorucci, to these distribution points shortly. A wholesale showroom was also established in Guangzhou in October 2002 to display our own brands and licensed brand products.

Looking forward, Peace Mark plans to reach 200 sales points by the end of 2004. To this end, we will continue to closely monitor the financial and operating performances of our PRC distributors as well as apply stringent controls over them to ensure that all activities are in line with the Group's business expansion and brand policies.

### **ASIA PACIFIC REGION**

The Asian market is an important market of the Group where we anticipate tremendous growth in the years to come. Other than China, the Group has made significant progress in the Asia Pacific region as we have strengthened our business relationship with important customers and business associates in key markets such as Japan and Taiwan. Through our subsidiary companies, our network of distributors and agents in Singapore, Korea, Malaysia, Taiwan and Saudi Arabia is also growing and we expect this to further promote our licensed brands such as Umbro, Montana and Fiorucci.

During the final quarter of our 2002/03 financial year, we were appointed as one of the authorized manufacturers of a major Japanese watch brand. This significant achievement further exemplifies the world-class quality standards that we have achieved. We remain committed to continually improving our manufacturing and management standards to ensure that we can maintain an edge over our competitors.

## THE AMERICAS

### *North America*

The United States has always been one of the Group's core markets and this trend is expected to continue in the future. The ongoing market trend is for major customers around the world to buy direct from manufacturers who meet their standards and requirements. As a step forward in developing the Group's downstream business in the North American region, the Group entered into a joint venture with a long-term customer, Omni, to enhance marketing and distribution in the U.S. market. The joint venture operation, which officially began on 2 January, 2003,

aims to integrate Omni's existing customer base, sales force, and other business assets with Peace Mark's resources. Through the joint venture, the Group gained over 17,000 sales points coupled with an experienced sales team. The sales points cover major chain stores, upscale department stores and drug chain stores in the U.S., and serve as a well-established and comprehensive distribution network as well as a nationwide logistics set-up for the Group.

In short, the joint venture serves to complement Peace Mark's downstream expansion plans by facilitating, marketing and distributing the various brands that the Group owns or licenses, to the sales points. The Group will continue to develop the distribution network within upscale department stores to pave the way for our future development plans for upscale brand names like Bill Blass under our brand portfolio. By successfully forming the joint venture, we not only avoid wasting time and resources in developing our own distribution network, but we can also enjoy higher profit margins through joining hands with a business partner, whose proven business model has been successful for the past twenty years and more.

### *Latin America*

Latin America is a lucrative market with immense upward potential owing to its huge population. With a combination of proper management controls and sound strategy execution, the Latin American mass market can become a noteworthy market in the Group's ongoing expansion plans. Despite the recent economic crisis, the consumer market still stands strong, owing to the disparity of wealth within the local population.



Through our associates in Latin America, we are currently selling our own brands: Cornell and Aerostar, together with our licensed brands: Umbro and Montana, directly to major department stores and various chain store outlets throughout the region. Similar to our distribution business in PRC, we are teaming up with reputable distributors with strong credit history and brand management track records. We are also monitoring our Latin America associates from a financial standpoint to ensure that our business risk is minimized.

Looking forward, the Group will continue to expand within the Latin America market by cooperating with our business associates. As a logical extension, the Latin America market may also become a secondary market for our North American joint venture business, as mass-market consumers generally tend to follow previous trends set by the North American fashion and sports brands.

## EUROPE

Europe is the Group's third most important market and our business contacts within that particular region are growing. While the OEM and ODM customer base remains strong, demand for licensed and own brand products are also growing. With the combination of the strong Euro and our well-established fundamentals, Peace Mark is positioned to gain a stronger foothold in the European market.

The acquisition of the Milus brand name and other related business assets was a significant strategic move for Peace Mark to enhance its brand portfolio. Through this strategic move, Peace Mark also capitalized on the design and production expertise of the high-end brand names as well as Milus' sales and marketing channels worldwide.

The re-launch of the new Milus targets the luxury timepiece sector. Milus International S.A. our Swiss subsidiary, participated in the 2003 World Watch and Jewellery Fair in Basel where the new Milus series were exhibited. The re-launched models retain all the familiar brand hallmarks with "*perfect attention to detail*" and "*an exceptional personal commitment in every area*". Paul Junod, head of the design team, represents the



family name now in its third generation in the company and upholds the distinctive Milus style. The new creations incorporate the history of Montres Milus dating back over 80 years with soft, clear forms, and that unique extra touch. These new collections are tailored to the wishes of today's elegant women and men who like to express their individual personalities by wearing unique and sophisticated timepiece.

Based on our presence at the Basel Fair 2003 and the re-launch of the Milus brand, the general impression has been extremely positive, with promising signs for the future prospects of the brand. Additionally, distributors, media and opinion leaders have reaffirmed our positioning concept to place the Milus brand on par with the most valuable male brands with a focus on long-established distribution networks in Europe, Middle East, USA and Asia. The long-term plan to market the Milus brand in the women's luxury segment also received the recognition of important opinion leaders.

Looking forward, the latest trends show that customers are taking a growing interest in luxury products. Taking this into consideration, Milus International S.A. will unite

time and jewellery, and take luxury into a new era. With a marketing plan focusing on a HIGHLY PERSONAL strategy, Milus will aim to target elegant women and men around the world.

### FUTURE DEVELOPMENT AND PROSPECTS

Peace Mark will play an important role in the international timepiece industry. Backed by solid financial support, we are in a position to deliver top quality design, manufacturing, distribution, and after-sales services, unrivalled in the global marketplace. While focusing on expanding our own brand and licensed products, Peace Mark will also broaden our distribution network to better serve our customers around the world. Exploring the emerging PRC market is also crucial to our growth. We are committed to becoming a global player, providing our customers with unmatched products and services in timepiece design, manufacturing, distribution, and after-sales services.





# Peace Mark



# Worldwide

