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Review of Operations

Peace Mark (Holdings) Limited

Mr. Leung Yung, Tommy
Managing Director



“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 service.”

The strong foundation stones laid in the past have enabled Peace Mark to achieve continuous year upon year growth. Based on a powerful combination of improved manufacturing capabilities and expansion within its global downstream operations, the company is poised to become a key player within the international timepiece industry with core competencies in design, manufacturing and distribution.

Production

Over the past years, the Group has leveraged its vertically integrated manufacturing setup to ensure that its competitive advantages over its peers can be sustained over the long run. As overall margins and production efficiency continue to improve, we are also making further efforts to upgrade our production facilities. The management of Peace Mark is proud to announce that our upscale components manufacturing and design laboratory located in Longhua, China, has been completed and is currently operational. This particular facility is intended to meet the components production standards for our high-end fashion and luxury brand customers and is in line with our plans to move towards upscale timepiece manufacturing. Backed by the latest equipment as well as a strong product design and development team, this production facility features an interactive customer-designer interface system and aims to yield shorter prototype turnaround time. The facility is also positioned to serve a wider customer base and to enhance Peace Mark’s competitive advantage among its peers.

DISTRIBUTION

The Americas

Apart from production, the management of Peace Mark is also closely monitoring the progress of its downstream businesses around the world. Historically, the United States has been a key market for the Group and will continue to be an important source of revenue in the upcoming years. Other important markets such as the lucrative mass market segment for the Latin American market is also showing strong demand and positive results have been reported across the region. FY2004 has been an important year for our US distribution business as it financially reflects



the full year operation results within our US joint venture company – Omni Watch & Clock Co., LLC. Similar to the other business lines within the Peace Mark Group, positive financial and operational results were reported from the US joint venture company. The JV contributed HK\$167.1 million sales and achieved a net margin of 10%. At the operational end, we currently cover over 23,000 points of sale around the US with a presence in major chain stores, drug chain stores, supermarket chains, specialty jewellery stores, truck stop chains and sports chains. Further efforts were also undertaken to enhance our abilities to sell direct. Apart from hiring additional experienced sales staff into the US JV, a new office was set up in Bentonville for the purpose of better serving our super customers. All in all, the management of the Group has established a proven successful business model for its one-stop business solution providing our customers with various timepiece related services ranging from design and manufacturing to distribution.

Asia Pacific

While the Group's manufacturing operation continues to receive strong OEM orders from Japanese customers, the management team is also looking closely into new opportunities within other areas of the Asia Pacific region. In FY 2003, we established a sales office in Taiwan and during the period under review, we continued to increase our presence within Asia by establishing sales offices in Thailand and Vietnam. The purpose is to align us with the increasing demands of various international brands and better position the Peace Mark Group to serve its customers within the Asia Pacific Rim. With the increasing popularity of branded fashion and sports wear timepiece products, we are confident that our downstream expansion plans within Asia will experience steady growth.

China

Since FY2003 we anticipated immense opportunities in the PRC distribution business facilitated by the benefits of CEPA and we have expedited our downstream expansion plans for our China distribution business. During the period under review we acquired a 60% equity interest in a PRC based distributor of Citizen watches covering 207 points of sale. The deal was completed in November 2003 and the acquisition has immensely improved the foundations for our China distribution business while creating a first mover advantage for the Peace Mark



Group. With a sophisticated management information platform and strong logistical support, the management is confident that this newly acquired business will contribute promising returns in the coming years.

We are currently selling timepiece products in China under various exclusive and non-exclusive contractual arrangements including licensing, agency and sales rights. Our ongoing strategy is to further strengthen our PRC distribution business by increasing the number of points of sale as well as adding more brands within our stores. With our strong distribution network in China we are pleased to see an increasing number of internationally renowned brands coming into our network thus benefiting our overall image and awareness of our points of sale. The PRC downstream business is also benefiting our other operations as we are currently in detailed negotiations with various international brands for simultaneous manufacturing and sales rights for the PRC market.

CEPA

Alongside our solid manufacturing and distribution base in China, the Group has also implemented strategic measures to fully capture benefits of the CEPA scheme, as we firmly believe that this arrangement will bring about additional manufacturing and distribution rights opportunities for the Group. In November of 2003, we successfully obtained a certificate of Hong Kong Service Supplier under the CEPA scheme. A temporary production facility was established and two new assembly lines are due to be completed in the coming months. The new production facility will increase our production capacity by two million pieces or 17% per annum. We are proud to be the first Hong Kong timepiece company to successfully manufacture and ship "Made in Hong Kong" timepieces under the CEPA arrangement and furthermore, we have also been recognized by the Trade and Industry Department of the HKSAR as a qualified company to provide distribution and wholesale services in the PRC. Our China and Hong Kong team are currently establishing wholly owned foreign enterprises both in Shenzhen and Chongqing for the purpose of aligning with the expansion plans within our PRC timepiece distribution business.



UPSCALE TIMEPIECE BUSINESS

Milus International S.A.

The launch of the new Milus aiming at a distinctive presence in the luxury timepieces sector took place during FY2003 and continued to exhibit immense potential during the 2004 World Watch and Jewellery Fair in Basel where international key markets have been launched with named and experienced distribution partners.

The newly founded Milus Germany GmbH has been set up and retailers within the European Union have been informed that Milus has its' own operational setup within the region. Headed by an experienced sales team, the German distribution office will provide strong support for the Milus expansion plan within existing and new markets such as Austria, Holland, Belgium, Spain, etc. Strong commitments were also made from the Asian market and we expect the majority of sales contributions to come from the Middle East as well as new prospective markets around the Asia Pacific region.

Bill Blass Timepieces

As the first luxury line created by Omni Watch & Clock Co., LLC., Bill Blass Timepieces enjoyed a successful media launch in June 2003 which brought out editors from almost every major fashion magazine in the United States. As one of the few recognized American based upscale brands, it is only natural for the national advertising campaign of Bill Blass Timepieces to experience strong support from patriotic celebrities. Coupled with names like Tom Junod and one of the top hockey players, Wayne Gretzky, the new line of Swiss Made watches will unquestionably be well received in the North and South American markets.

FUTURE OUTLOOK AND PROSPECTS

As a provider of quality timepiece products, designs and services, we are committed to grow our business involvement responding to the ever-changing market trends and demands. From our end consumers to international fashion and luxury brands, we dedicate our time and energy to come up with innovative ideas and services to cater their needs. From the end consumers' standpoint, we



see a growing trend for demand in timepiece products with functional and design features. We also believe that the ongoing demand for upscale timepiece products will increase in the coming years. To further extend our manufacturing capabilities and to further vertically integrate our manufacturing setup, we recently took a major equity stake in a mechanical movement manufacturing plant in China. The mechanical movements manufactured by this plant is intended for higher end timepiece products for the domestic and overseas market.

For the US market, plans to further integrate the operation for better operational efficiency are currently in the pipeline while extra effort is also focused on further developing the Bill Blass Timepieces business. With the strong presence of an experienced management team in selling direct to the retail end, we target to have 50% of our sales to the US distributed by our joint venture company in FY2007 and expect to experience further improvement of overall profit margins.

FY2004 was a breakthrough year for the Group's business in the PRC market and much of the contribution came from our newly acquired business. Other than the equity stake participation in the Citizen distribution network, we have recently successfully acquired a 90% stake in a multi-branded sales channel across China under the trade name of TimeZone. After this acquisition, the Peace Mark Group proudly claims that with over 550 points of sale in total, we are currently the largest distributor in China. Furthermore, with various exclusive and non-exclusive retail and distribution arrangements with brands such as Citizen, Swatch, Esprit, Casio, Nike, Fila, Umbro, Victorinox Swiss Army, Timex, Morgan, Bally, Fiorucci, Technos and many more, we are also number one in China in terms of the number of brands in our retail and distribution brand portfolio.

This year marks an important year for the Peace Mark Group and our dreams of becoming an important player within the timepiece industry are gradually becoming a reality. Backed by solid financial fundamentals and support from our partners, we are in a position to leverage the balance sheet further to pursue new opportunities and to acquire other businesses, in particular in the China market.