

CHAIRMAN'S STATEMENT



Mr. Chau Cham Wong, Patrick
CHAIRMAN

OUR MISSION

“To make Peace Mark the most admired international timepiece company with core competence in manufacture, distribution and retailing.”

Dear Shareholders,

Peace Mark continued to grow strongly during 2006, with excellent performance from all core businesses.

The Group turnover was up 15.7% while net profit was increased by 61.9%. The Group as a whole saw gross profit up 29.4% and operating profit up 57.3%.

This year we are pleased to report that all businesses were delivering growth. Organic growth has been coming through strongly. Strong turnover growth and margin expansion were attributed to the strong growth in the China business and successful integration of the US distribution business.

Peace Mark had been very focused in developing the watch business while broadening its revenue base. **Distribution and Retail businesses were the growth drivers while the manufacturing provided stable and predictable cash inflows.** Right strategies with well-structured execution plans ensure the continuous delivery of encouraging operational and financial results.

The strategy of expanding downstream business was proven to be successful. In China, the Group adopted a pragmatic approach to marketing.

Since the implementation of CEPA, the Group has spent more than two and half years' time to establish its nationwide network in China. At the balance sheet date, the network for the middle-end market already covered over 650 point-of-sales for more 70 brands. Strategically, the Group is also building the networks in Hong Kong and Taiwan. Currently, we have 15 and 10 point of sales in Hong Kong and Taiwan, respectively. Approximately half of the brands we were distributing and retailing in China were of exclusive basis. The Group has been ready to capitalize on the ever-increasing fashion awareness of the Chinese market and mainland consumers' increasing disposal income. The Group will continue to expand the network by leveraging on its highly scalable infrastructure.

Following the success of the middle-end market, we also started to expand into the luxury watch market. With the formation of the Peace Mark Tourneau joint venture, the Group was well positioned to tap the growth in the luxury watch market and has devised a business plan for the coming 5 years with a view to becoming a major player in this business segment. We are beginning to see fruitful results, which will start to contribute to the top and bottom lines in the next year.

CHAIRMAN'S STATEMENT

Peace Mark now has the people, scale, infrastructure and geographic diversity to further establish our presence in China. Leveraging on all these resources will drive the growth of this business to a new height.

For the manufacturing business, Peace Mark has been a beneficiary of the evolution of supply chain. Increasing demand for distribution service has fundamentally changed the playing field of the traditional manufacturing. Adding more value through the captive US distribution arm helped the Group to reap extra margin on top of the manufacturing. This transformation of business models will enable the Group turnover and margin to further improve even in a relatively stagnant consumer demand. Peace Mark has become a partner of choice for many US retailers.

In other markets, we continued to strengthen the French and German operations in order to extend the market reach of the European market. This will lead to a more balanced market mix of the manufacturing business.

The expanded businesses of the Group have reinforced our resilience during the market downturn while the distribution and retail businesses in China will be the engine of growth in the future. We are committed to delivering business growth and profit enhancement which will be translated to improved shareholder's value.

Sincerely,



*Tourneau The World's
Largest Watch Store*

