CHAIRMAN'S STATEMENT

We have become more resilient in the current difficult market climate.

Chau Cham Wong, Patrick
Chairman

We have been facing intense market competition in the midst of the widespread global economic slowdown. However, we have overcome various challenges posed by both depressed consumer demand and increasing pressure on prices. Our performance was a result of team effort which enabled us to relentlessly reposition ourselves and continuously transform our business to cope with the rapidly changing marketplace. By persistently implementing our strategies, we have become more resilient in the current difficult market climate while paving the way for a forward leap once economic recovery comes along.

Consolidated turnover for the year was HK$931.2 million and a profit attributable to shareholders of HK$36.4 million was reported for the year. These figures represent an increase of 9.2% and of 41.1% respectively as compared to last year.

The basic earnings per share was HK cents 19.8 up 39.4% from last year.

Notwithstanding that the Group achieved satisfactory results, the Directors of the Company have resolved not to recommend the payment of a final dividend with a view to reserving adequate cash for planned business expansion.

2002

ISO 9001:2000
- Design and Manufacture of Quartz Analog Mini Clocks & Watches

Major US Customer
- Supplier Excellence Award

Trade & Industry Department
- Merit in Quality

2001

BUSINESS REVIEW

Timepiece Export Industry

Against a background of sluggish consumer markets in major countries, Hong Kong's timepiece exports from HK$44 billion in 2000 to HK$38 billion for the first eleven months of 2001. Exports are expected to be moderate in 2002.

The USA has been the largest market for Hong Kong contributing one-fourth of total timepiece exports, on the back of its mature consumer market. Sales to Japan amounted to HK$3.4 billion as consumers there are increasingly looking for value-for-money products. China, after its accession to WTO, will gradually phase out its import quota restriction and reduce the tariff for watches. Coupled with the liberalisation of the domestic distribution sector this will certainly facilitate Hong Kong companies' exploitation in this potential market.

OUR CORE COMPETENCES

Product Development

Product development is regarded as one of our core competences. Design concept and product engineering processes have been continuously redefined and accommodated each other. Our product development team has been able to deliver products of contemporary design yet at reasonable prices to the customers. In terms of headcount, we currently employ 20 in design and 78 in product engineering. A timepiece design house based in Switzerland is mandated to deliver the best suited designs for high-end products.

Production Management

Pursuing production excellence has always been seen as one of our success factors. Production management together with advanced production facilities are the key drivers for producing our quality products. We were accredited the 2001 Certificate of Merit in Quality by the Hong Kong Trade and Industry Department. This award and the previous award in

Trade & Industry Department
- Merit in Quality

Hong Kong Productivity Council
- Hong Kong Awards for Industry Merit in Productivity

2000 | 1999 | 1997

Hong Kong Productivity Council
- Hong Kong Awards for Industry Merit In Productivity

ISO 9001:1994
- Design and Manufacture of Quartz Analog Mini Clocks & Watches

Hong Kong Trade Development Council Design Gallery
- Best Sellers Award

productivity we received from the Hong Kong Productivity Council demonstrated our achievement in the area of timepiece manufacturing. Without doubt, we are always considered by our customers as their best manufacturing partners. A leading international company in direct selling of women's products, awarded us their "Supplier Excellence Award" recognising our dedicated effort in serving customers. We are proud of our achievements in production management, which have been recognised by various business associates and government authorities.

Production Technologies

Cutting edge technologies in timepiece production have been implemented to ensure that we stay ahead in the area of manufacturing. Upstream parts and components manufacturing is crucial for enhancing and improving the quality of products. A number of CNC molding machines and an ionised electroplating system were installed at our production plant. The capital expenditures are anticipated to be recouped from higher margins on orders and cost advantages gained over the production processes.

Main Factory in China

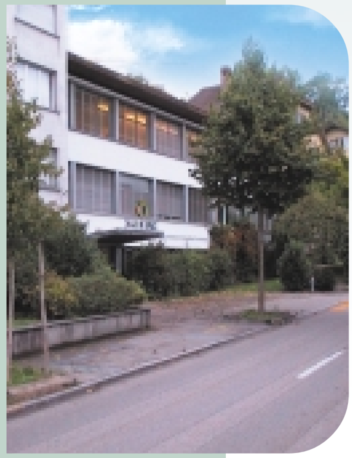
Whilst the production processes have been increasingly automated, production manpower was increased to over 1,200 staff in China to meet increased order levels and tighter production schedules to satisfy customer requirements. Total output could reach a maximum of 1.3 million pieces monthly.

In September 2001, we acquired the remaining 45% interest in a subsidiary through which the main factory land and buildings are held. The purpose of this acquisition was to buy out the minority shareholder and, through the wholly owned subsidiary, to indirectly obtain 100% of production facilities and domestic sale right in China.

In addition to the current set up for mass production, we have been striving to keep pace with the quality standard of our Swiss counterparts from both aesthetic and mechanical perspectives. A workshop located in Bienne, Switzerland has been added to the Group for the furtherance of quality production. This workshop is principally involved in product development and assembling processes.

Business Model

Over the past years, we have persistently exploited ways to improve our profit margins and broaden our revenue streams. The transformation of the business model from OEM to ODM is a step that has already been taken. We are now prepared to further transform to Own Brand Manufacturing (OBM).


Milus Factory in Switzerland

Having thoroughly considered the trade-offs between building a brand from scratch against acquiring an established one, we proceeded to acquire Milus, a timepiece brandname which originated in Switzerland in 1919. This strategic move will capitalise on the production expertise and know-how of a high-end brandname as well as the existing sales team and marketing channels of Milus. Milus marked a milestone by moving upmarket and producing an internationally renowned self-owned brand. We foresee that Milus will not contribute significantly in terms of turnover and profit in the near term but will certainly be a valuable asset to the Group in the medium to long term. With its various business models, we will be providing a full range of offering in timepieces enabling us to have a competitive edge over other market players.

SIGNIFICANT EVENTS

A number of significant events in relation to shareholding, share capital as well as the debt and equity financing of Peace Mark are reported as follows:

Shareholding Structure

In August 2001, Mr. Leung Yung, our Managing Director, acquired a 10.00% interest in the share capital of Peace Mark at a consideration of HK$49.8 million. This was a sign of Mr. Leung's commitment and faith in the future prospects of the Company. The Directors believe that the management buyout has furthered the commitment of the current management to strive for better operating and production efficiency for the benefit of both the Company and its Shareholders. After the transaction, the substantial shareholders of the Company became Mr. Leung and myself. Our shareholdings have since been 10.00% and 10.18% respectively.

Capital Reorganisation

On 24 January, 2002, a resolution approving a proposal for reorganising the then capital structure of the Company was passed at a Special General Meeting (the "Capital Reorganisation").

Our shares had been trading at prices below the par value of HK$0.10 each for more than a year prior to the Capital Reorganisation. Since the Company is prohibited under Bermuda law to issue shares below their par value, this made it impossible for Peace Mark to issue new shares at market price before the Capital Reorganisation.

The Capital Reorganisation has since then enabled Peace Mark to conduct capital fund-raising exercise or other acquisitions by way of allotment or placement of shares without altering any of the underlying assets, business operations or financial performance.

New Share Option Scheme

The Directors consider that in order to attract, retain and motivate employees to strive for the future development of the Group, it is important that the Group should continue to provide them with an additional incentive and encouragement by offering them an opportunity to obtain an ownership interest in the Company and to thereby enjoy the results of the Company attained through their efforts and contributions.

With the newly implemented rules of Chapter 17 of the Listing Rules, a new share option scheme was proposed by the Directors and adopted after the passing of a resolution in the SGM on 24 January, 2002. This was in replacement of the then existing share option scheme.

Syndicated Loan

On 7 November, 2001, we entered into a HK$200 million three-year term loan facility with a group of banks with WestLB as coordinating arranger. The loan was primarily for (i) refinancing the then existing term loan facility; (ii) general working capital and (iii) improvement in production facilities and expansion in our distribution network.

Proposed Rights Issue

On 6 June, 2002, the Directors proposed to issue, by way of rights issue, 367,822,300 shares at HK$0.18 each and will provisionally allot two rights shares for every existing share held by Shareholders (the "Rights Issue").

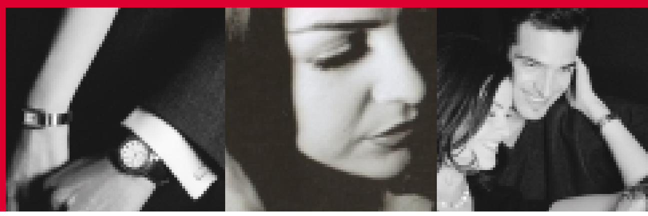
The net proceeds of the Rights Issue are expected to be about HK$63 million, about HK$24 million is intended to be used for establishing a distribution arm in the United States, about HK$10 million will be used for promoting the Group's licensed products through the distribution arm aforementioned, about HK$20 million will be used for developing the distribution network in the PRC and the remaining balance will be used for general working capital purposes.

The Directors considered that it is in the interests of Peace Mark and its Shareholders to strengthen the Group's capital base and financial position through the Rights Issue.

As a result of various negotiations at arm's length with independent underwriters and demonstrating the shareholders' commitment to facilitate the underwriting arrangement, Mr. Leung Yung and I, through a company, entered into an underwriting agreement whereby this company has to underwrite 78.71% of the total underwritten amount.

The Rights Issue is subject to a number of conditions set out in a circular which is due to be dispatched shortly.

pierre cardin



GOING FORWARD

Distribution Capability

Being a leading company in the Hong Kong timepiece industry, we are constantly rethinking our position from a global perspective. We need to expand our distribution presence in the major markets including the USA, Japan, China and Europe in order to maintain our competitiveness in the worldwide timepiece marketplace in the coming years. Strengthening our distribution power could make us more proactive in approaching brandname licences and more downstream customers. This is a way to improve the profit margin of the Group by adding value along the value chain.

In addition to establishing distribution networks in major countries in the Asia Pacific region in the past years, we have planned to establish distribution network and sales channels, as a priority, in both the USA and China in the coming years. These would inevitably involve forming alliances in any form with other business partners to complement the competences and strengths of each other. All forms of synergy including equity participation, mergers or cooperation will be considered in this regard. Negotiations with various distribution business partners are currently underway in an effort to sell directly to the retail level.

China Market

As part of its WTO commitments, China will gradually remove its import quotas and licensing system for watches from 1 January, 2003, which means that the market will be able to accommodate more brands and products of different grades. In view of this situation, we have prepared to tap the growing middle class market in the major affluent cities. This market segment is forecast to grow exponentially given the anticipated economic growth in China in the years to come.

However, as mentioned in the 2001 Annual Report, we will only expand into the China market in a cautious manner given the impediments still prevailing in the market. We will continue to implement our plan to set up after-sale repair and service

UMBRO®

centres for high-end watches and explore the domestic sales channels for sport and fashion watches, like *Umbro* and *Pierre Cardin*. Three retail shops in Guangzhou have been acquired as flagship stores for brandname products and after-sale service and repair centres of the Group. Suitable distributors are currently being sought to gain a foothold in major cities and thereby facilitating an efficient expansion in distribution.

US Market

The current economic setback has hindered the growth of this market for the time being. However, Peace Mark still sees this market as a major market for the Group owing not only to the size of this mass market but also as the market intelligence gained is valuable in other parts of the world. Though this is a mature and sophisticated consumer market, business opportunities in timepieces are emerging as many fashion and sport brands are still actively supplementing their core lines with watches. Well-established and integrated watch manufacturers and distributors are their target partners. We will explore more business opportunities in this regard.

Milus

Milus is a watch brand which originated in Switzerland in 1919, Peace Mark together with the existing Milus marketing and design teams, will pool their very best talents in an effort to enhance awareness of the brand globally, particularly in Japan, Europe and the USA. The existing design team will be employed for the continuation of their design concepts. It is anticipated that the brand will take off after a year's groundwork and thereafter contribute to our bottom line.

To conclude, we are prepared to pave the way forward by leveraging Peace Mark's core competences accumulated over the years. The current faltering market conditions will force the industry to consolidate but will also allow competent companies to expand organically and through acquisitions.

The trend for manufacturers to sell directly to the ultimate customers is irreversible. Given our integrated manufacturing set up, we are ready to ride on the trend and capture benefit all along the distribution channels in these markets.

We will form alliances with other enterprises to facilitate growth in a manageable manner. Our management is optimistic that through our commitment to the business, the shareholder value will ultimately be enhanced.

STAFF APPRECIATION

I would like to take this opportunity to express my sincere appreciation to staff, the management team and my fellow board members for their valued contributions throughout the year.

Chau Cham Wong, Patrick
Chairman

Hong Kong,
10 July, 2002