Mr. Tsang Kwong Chiu, Kevin – *Finance Director*

"Strong foundations built in the past enabled us to stand tall against the competitive market climate. These foundation stones were not laid overnight."

FINANCIAL PERFORMANCE

This year Peace Mark reported a consolidated turnover of HK$1,119.1 million representing a year-on-year growth of 19.4%. The increase was attributable to a series of successful execution of business plans. Firstly, Omni Watch and Clock Co., LLC, Peace Mark's US marketing and distribution arm, had commenced its operation since January 2003 and facilitated Peace Mark to directly sell its products to various chain retailers. Secondly, Milus International S.A. started to have its full year operation being accounted for despite no contribution was made to the bottom line. Thirdly, orders received from Japanese customers were very encouraging as the upgraded vertical integrated production facilities were well equipped to meet their stringent quality requirements. Finally, new market penetration in China and Latin America was also a contributory factor to the turnover performance.

Regarding margin enhancement, effects of Peace Mark's vertical integration production began to materialize. Gross margin improved from 14.5% in FY2002 to 17.3% this year. Furthermore, higher production efficiency and reduced components outsourcing yielded additional cost saving. The gradual shift in the business mix also contributed to improved margin. The following business segment breakdown provides more information in this respect. Finally, the partial implementation of downstream distribution plans also explains the improved margin. However, the results from distribution business would be more apparent in coming years.

As a sign of strong operating income and cashflow, earnings before interest, tax, depreciation and amortization ("EBITDA") reached HK$129.9 million. Given the above positive contributory factors, the combined effect was a profit attributable to shareholders of HK$58.2 million after minority interest sharing of profit of HK$7.8 million. In short, the smooth and well-planned business plans execution translated to the surge of bottom line.

SEGMENT INFORMATION

To facilitate the analysis of its business model, the business had been divided into three main segments, namely, OEM, ODM together with OBM and licenses.

The proportion of OEM, ODM and OBM plus licenses to the Group's turnover were 37%, 53% and 10% respectively for FY2003 and 42%, 53% and 5% respectively for FY2002.

The proportion of OEM dropped by 5% but in fact increased by HK$22.0 million in value. OEM orders were mainly those orders for other watch brands and mass market merchandizes.

In line with the growing market trend of requiring the manufacturers to provide design for timewear for a wide range fashion and sport brands, Peace Mark continued to capitalize its strength in product design and engineering thereby maintaining a 53% in the ODM segment.

OBM refers to own brand manufacturing and distribution of Sergio Valente, Milus, Aerostar and Cornell. The profit margin is generally higher than OEM and ODM. As a defined strategy, Peace Mark will continue to add more trademarks into its own brand portfolio. With regard to licences, this area of business will also continue to grow. Increasing number of fashion and sports brands are working with manufactures for introducing watches as fashion accessories. For FY2003, Peace Mark's licensed brands included Umbro, Pierre Cardin, Fiorucci, Aspen, Bill Blass, Beverly Hills Polo Club and Montana blu.

In terms of geographical segment, the US market, representing 51% of the turnover, was the largest market of Peace Mark. For this market, Peace Mark's target segment was mass market merchandize. Its products were being sold in major retail and drug chains stores. Bill Blass was relaunched in June 2003 and would become one of growth drivers in the years to come.

Turnover in Asia included OEM orders from Japanese customers and sales of licenced products through over 10 appointed distributors across the region including but not limited to Korea, Taiwan and Australia. Sales in the China market commenced in October 2002. Though its contribution was insignificant in FY2003, the potential of this market could not be ignored. The management will exercise strict operational and financial controls in order to reap the benefits of selling in this market while monitoring the business risks at its lowest level.

FINANCIAL POSITION

Fixed Assets increased from HK$292.9 million in FY2002 to HK$357.1 million in FY2003. Peace Mark had further improved its production facilities both in Bienne, Switzerland and China. In the US, through acquiring the business undertakings from the US joint venture partner, logistic and display facilities amounted to HK$25.9 million was added to Fixed Assets.

Intangible Assets with cost of HK$61.7 million included four own brands: – Sergio Valente, Milus, Aerostar and Cornell.

The Group's inventories stood at HK$227.7 million as at 31 March, 2003. The inventory turnover increased from 64 days in FY2002 to 76 days in FY2003. The increase was a result of longer production cycle arising from vertical integrated set up and higher level of buffer inventory for distribution.

Trade receivables, net of provisions, were HK$162.4 million in FY2003, increased by HK$34.6 million when compared to HK$127.8 million last year. Despite of increased turnover, the trade receivables turnover remained at 47 days. This improvement in trade receivables was due to a stronger credit control over the customers.

LIQUIDITY AND FINANCIAL RESOURCES

The cash and bank balances of the Group maintained at approximately HK$207.6 million (FY2002: HK$154.4m) while total financial indebtedness was approximately HK$463.5 million (FY2002: HK$420.6 million).

The total financial indebtedness of approximately HK$463.5 million, consists of term loans and a syndicated loan of approximately HK$348.0 million, trade facilities of approximately HK$113.3 million and obligations under finance leases of approximately HK$2.2 million.

Within this financial indebtedness, approximately HK$286.9 million will mature within one year, HK$126.8 million after one year but within two years and HK$49.8 million will mature after two years but within five.

As at 31 March, 2003, the gearing ratio of the Group, calculated by dividing the financial indebtedness net of cash and bank balances over shareholders' equity, was approximately 37.9%, improving from 48.6% in FY2002.

During FY2003, the Group had operating profit before working capital changes of HK$127.1 million (FY2002: HK$91.6 million) and cash generated from operations of HK$118.1 million (FY2002: HK$32.5 million).

The current ratio of the Group as at 31 March, 2003 was 2.0 (FY2002: 2.8). The drop in the ratio was because a portion of the syndicated loan amounted to HK$114.3 million had become short-term.

In view of the Group's internally generated funds and available banking facilities, the Directors believe that the Group has adequate cash resources for working capital requirements and its capital expenditure commitments.

CAPITAL STRUCTURE

During the year, the Company raised net proceeds of approximately HK$62.1 million by way of a rights issue on the basis of two rights shares for every one existing share held. Upon completion of the rights issue, 367,822,300 shares were issued.

FUNDING AND TREASURY POLICIES

The Group's treasury policy is to manage the Group's assets and liabilities to reduce its exposure to fluctuation in foreign exchange and interest rates. In the normal course of business, the Company enters into certain derivative contracts to hedge its exposure to fluctuations in interest rates and foreign currencies. These instruments are executed with creditworthy financial institutions. Gains and losses on these contracts are applied to offset fluctuations that would otherwise impact the Company's financial results. Costs associated with entering into such contracts are not material to the Company's financial results. About 85% of the Group's borrowings were in Hong Kong Dollars with the balance in Renminbi and US Dollars. It is the Group's treasury policy to manage its foreign currency exposure whenever there is material financial impact to the Group.

As at 31 March, 2003, all the Group's borrowings were at floating rates with approximately HK$150 million of borrowings being hedged by interest rate swaps.

MATERIAL ACQUISITIONS

An agreement dated 30 July, 2002, pursuant to which Polywell Enterprises Limited, a wholly-owned subsidiary of the Company agreed in a consideration of US$4.5m to acquire 51% of the issued share capital of Omni International Holdings Limited (which in turn 100% owns Omni Watch and Clock Co., LLC) and to participate in the distribution business in the United States.

In March 2003, three distributors in Latin America, namely, Stefanie S.A., Bulova Del Peru S.A. and Cornell Corporation Mexico S.A. de C.V. became associates of the Group. After the acquisition, the Group extended its distribution network in these markets.

EMPLOYEES AND THE REMUNERATION POLICY

As at 31 March, 2003, the Group employed a total of approximately 1,800 employees worldwide. The Group remunerates its employees based on their performance, experience and prevailing industry practices. In addition, the Group has established discretionary bonuses and employee share option schemes, to motivate and reward employees to achieve the Company's business performance targets.

CONTINGENT LIABILITIES

As at 31 March, 2003, the Group had contingent liabilities in respect of bills discounted with recourse amounting to approximately HK$68.0 million.

The Company has given corporate guarantees to banks in respect of general banking facilities granted to subsidiaries amounting to HK$929.2 million. The extent of these facilities utilised by the subsidiaries at 31 March, 2003 amounted to approximately HK$261.2 million.

FINANCIAL INSTRUMENTS

The Company has entered into interest rate swaps to manage its interest rate risk. At 31 March, 2003, the total notional amount of such instruments was HK$201.0 million. The notional amounts of the outstanding interest rate swaps indicate the contract size outstanding at the balance sheet date and do not represent the amount at risk.