

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of 1.8 HK cents (2002: 1.5 HK cents) per share for the six months ended 30th September, 2003. The interim dividend will be payable on Monday, 16th February, 2004 to shareholders whose names appear on the register of members of the Company on Wednesday, 7th January, 2004, with a scrip alternative to offer the right to shareholders to elect to receive such interim dividend wholly or partly by allotment of new shares credited as fully paid in lieu of cash. A-ONE INVESTMENTS LIMITED, Mr. Chau Cham Wong, Patrick and United Success Enterprises Limited, altogether holding approximately 50.4% of the issued share capital of the Company, have indicated to the Board that they intend to take up their dividend entitlements wholly in shares.

A circular containing details of the scrip dividend scheme together with an election form will be sent to the shareholders of the Company as soon as practicable. The scrip dividend scheme is subject to the following conditions: (a) the issue price of a new share to be issued pursuant thereto being not less than the nominal value of a share of the Company; and (b) the granting by the Listing Committee of The Stock Exchange of Hong Kong Limited of the listing of and permission to deal in the new shares to be issued pursuant thereto.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 5th January, 2004 to Wednesday, 7th January, 2004, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all share transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrars in Hong Kong, Secretaries Limited of Ground Floor, Bank of East Asia Harbour View Center, 56 Gloucester Road, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on Friday, 2nd January, 2004. The dividend warrants and certificates for the new shares to be issued pursuant to the scrip dividend scheme will be distributed on or about Monday, 16th February, 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Performance

The Group's performance for the first half of the financial year was encouraging. Turnover for the six months ended 30th September, 2003 was HK\$613,226,000, representing an increase of 22.0% compared to the same period in 2002. The increase in turnover was mainly attributable to contribution from the organic growth of its core manufacturing business and the contribution from its US distribution arm namely Omni Watch & Clock Co., LLC.



The gross profit margin of the Group gradually improved from 16.2% in the first half of FY2003 to 18.2% in the second half of FY2003 and further improved to 22.1% in this period. The margin enhancement was mainly due to a series of successful implementation of business plans including further integration of production processes as well as moving towards more branded products manufacturing and distribution.

Profit attributable to shareholders was HK\$34,268,000, an increase of 43.1% as compared to the six months ended 30th September, 2002.

Review of Operations

Peace Mark aims to become an internationally acclaimed timepiece company, valued for its design, manufacturing, and distribution accomplishments. For the six months ended 30th September, 2003, the Group made significant progress in these areas, especially in timepiece distribution. While the US distribution business grew steadily, opportunities to expand the Group's PRC downstream business were also realized. Development plans to further enhance its manufacturing capabilities are also being explored to place the Group in a position to attract a wider customer base including well-known foreign brands.

In September 2003, the Group's 20 years of success received further industry recognition with Peace Mark's receipt of "Prominent Manufacturer Award 2003" for product development and industry contribution awarded by Global Sources Publication, a US based sourcing publication. The Board is confident that with the solid foundations established in the past, Peace Mark is poised to fully exploit present as well as future expansion plans.

Marketing and Product Development

The vertical integration strategy implemented over the past few years is yielding promising results including improved product development capabilities and higher margins. The Group achieved good results during the period despite of a volatile market and outbreak of SARS in Asia. During the Basel Fair 2003, the management team reacted quickly and implemented various contingency measures to minimize the potential effects on the Group's business. Positively, during the period under review, the Group's OEM and ODM business remained relatively steady while the turnover for the license and OBM business increased in comparison to the corresponding period in 2002. On average, orders on hand were maintained at 2.5-month level and the outlook for Christmas sales is positive across the Group's major markets. Owing to various factors including seasonal demand cycles, and the need for retailers to replenish their inventory levels to meet increasing consumer demand, the Board expects stronger growth in the second half of the FY2004.

USA – Omni Watch & Clock Co., LLC (“Omni”)

During the period under review, the US joint venture company Omni reported positive results in line with the management expectations. Sales to major retail chain stores and drug chain stores in the US reported steady growth. Owing to the new business development in the supermarket chains and the upscale retail store sector, the number of points of sale is also increasing. The Bill Blass brand, a couture label targeting the high end of the US market, is expected to be available in specialty retail stores and luxury department stores in December 2003.

Omni is also beginning to gain further financial independence from the Group. On 25th September, 2003, a financial institution approved a trade facility line of US\$4 million to this newly established joint venture based on its first six-month's performance record. The proceeds of the facility will facilitate business expansion needs of this US joint venture.

Production

From the production standpoint, the resulting benefits of capital expenditure and equipment upgrades over the past few years are continuing to materialize and overall margins throughout our production facilities are continuing to improve. This positive trend is expected to continue over the next few years. During the period, the capital base of the electroplating factory was further capitalized for further expansion. In addition, development of another production facility for manufacturing high-end timepieces in China is currently in progress. The Board estimates investment for this new production facility would be around HK\$40 million. The purpose is to further enhance the Group's design, R&D and components prototyping capabilities and to better position Peace Mark within the high-end market. This new facility will be equipped with world-class computerized equipment and be capable of achieving unprecedented lead times and quality products for upscale customers. Funding for the project will mainly come from the Group's internally generated cash flows and the syndicated loan. In short, the Board intends to serve high-end brands with advanced production facilities.

CEPA

With the implementation of the Closer Economic Partnership Agreement (the “CEPA”), the Board is optimistic that its downstream activities in the PRC will prosper. Starting from January 2004, the PRC Government will implement zero import tariffs on the imported timepiece products originating in Hong Kong. The Board expects that this bilateral agreement will facilitate the development of the Group's downstream business as well as elevate the brand image of the various labels under the Group's brand portfolio. To take advantage of the benefits of CEPA, the Board plans to invest HK\$30 million to add two production lines in Hong Kong solely for the PRC market. In



the meantime, an intermediate production line is currently being set up and applications for government licenses and approvals have been granted. The production line is expected to be fully operational in the first quarter of 2004.

Downstream Developments – The PRC

The Group began to develop its PRC downstream business in October 2002. Since then, the Group has appointed 12 authorized distributors which cover over 100 points of sale including 27 Wal-Mart stores throughout the PRC.

During the period under review, to pave the way for its expansion plan in the PRC, the Group invested HK\$15.6 million in the equity stake of a Japanese watch company. This company advises and assists Japanese brands in identifying and coordinating with PRC manufacturers, distribution partners and acquisition targets. This company also assists the Group to serve its Japanese customers. On 30th October, 2003, the Group entered into an agreement to acquire a 60% equity stake in an established timepiece distributor, significantly enhancing its distribution and retail network in the PRC. The consideration for this acquisition was RMB30 million. The said PRC distribution company is a domestic limited liability enterprise established under the laws of the PRC whose principal activity is to sell and distribute timepieces bearing the Japanese watch brand "Citizen". This acquisition not only will raise the Group's distribution margins in the PRC, but also increase the number of points of sale from over 100 to approximately 310, 210 of which are self-managed and located in major department stores. The Board intends to make use of the distribution network to sell its owned and licensed brands, including Victorinox, Pierre Cardin, Montana, Fiorucci and Umbro, while continuing to expand the network to sell the Citizen watches throughout the PRC.

Further, as part of the Group's expansion strategy, a PRC marketing and distribution company was acquired with a consideration of HK\$12 million. The function of this company is to assist the Group to further penetrate the PRC distribution network and to provide overall image management and points of sale setup services for the PRC market. This PRC company also owns the PRC distribution rights of a famous international brand.

As a direct result of the increase in the number of points of sale in the PRC, the Group's license and OBM business will experience further turnover growth. In the PRC market, significant top and bottom line contributions are expected in FY2005 and onwards accounting for the full year's operation of the newly acquired business and its synergy effects on the Group's downstream business.

Brand Developments

The Group participated in various trade exhibitions, such as the Basel Fair 2003, Hong Kong Watch & Clock Fair 2003 and the Shanghai International Watch & Clock Fair 2003. Innovative designs and house brands were introduced to the market and the general feedback has been extremely positive. In March 2003, the Group's upscale Swiss brand Milus was successfully re-launched to target the luxury segment. During the Hong Kong Watch & Clock Fair 2003, the Group also hosted a 2003/2004 collection preview event for Milus. In addition, in August 2003, the Group's brand name division successfully gained the PRC distribution rights for the world-renowned Swiss Army brand Victorinox. The Victorinox brand was first displayed at the Hong Kong Watch & Clock Fair 2003 and was later launched in the PRC market during the Shanghai International Watch & Clock Fair 2003. A launch event was organized in Shanghai in November and upcoming prospects for the Victorinox brand are encouraging.

Other Developments

In November, the Group successfully obtained a license to operate a watch school within its manufacturing grounds in China mainly for internal training. This project is well supported by the relevant Chinese authorities and various watch repair institutes overseas. Along with important confirmation and recognition of the timepiece industry, this school will supply a steady flow of skilled technicians to meet the Group's increasing after sales service demand.

Corporate Events

While sound business results have been reported throughout the Peace Mark Group, there were other significant milestones. On 14th October, 2003, the Group signed a HK\$380 million term loan facility arranged by BNP Paribas Hong Kong Branch. Nineteen local and international banks participated in this facility and the proceeds were used to refinance the then existing HK\$200 million syndicated facility concluded in November 2001, with the remaining funds being used to fund the general future expansion plans of Peace Mark and its subsidiaries.

Further efforts for better investor relations were put forward and the senior management of Peace Mark participated in various investor road shows in Asia and Europe to enhance communications between the Company and the investment community. In recognition of Peace Mark's outstanding investor relationship efforts, the Group was short-listed and was highly recommended in the 2003 IR Magazine Asia Awards for the "Grand Prix for IR for a Small-Mid Cap Company".



Corporate Governance

The Board regrets to announce that Sir Oswald Cheung, an independent non-executive director since 1993, passed away on 10th December, 2003. The Board would like to take this opportunity to express its sincere appreciation to Sir Oswald Cheung for his invaluable contributions to the Group and its condolence to his family.

To further enhance the Group's corporate governance, on 18th December, 2003, the Board elected Mr. Wong Yee Sui, Andrew (CPA, FHKSA) and Mr. Tang Yat Kan (Solicitor) as Independent Non-executive Directors and members of the Audit Committee. With their extensive knowledge and experience in the auditing, finance and legal fields, this will strengthen the Board's ability to meet its continuing focus on corporate governance throughout the Group.

Future Outlook

Peace Mark will continue to further integrate the operation with its overseas subsidiaries and customers to ensure its long-term success. To maximize shareholder value, the management team will continue to open doors to new business opportunities, build a greater global presence and gain greater industry acknowledgment. While the US growth strategy has proven to be successful, the management team believes that the combination of CEPA and Peace Mark's downstream expansion will create ample growth prospects in the Group's PRC business. As mentioned, plans for enlarging the Group's production capabilities through the development of an additional manufacturing facility for the high-end market is currently under implementation. This is an important strategic breakthrough, taking the Peace Mark Group to the next level of market position.

The management team is optimistic in the development plans as mentioned above and believes that these plans will materialize in the years to come and will reward its long-term investors and shareholders.

Financial Position

The Group has maintained a stable financial position. As at 30th September, 2003, the gearing ratio of the Group, measured by reference to the financial indebtedness net of cash and bank balances to shareholders' funds, was approximately 39.7%.

As mentioned previously, on 14th October, 2003, the Company entered into a facility agreement with BNP Paribas Hong Kong Branch and 18 other local and international banks in respect of a 3.5-year term loan facility of HK\$380 million. The proceeds of

the facility was used to refinance the then existing HK\$200 million syndicated facility of the Company which was concluded in November 2001 and to fund the general corporate purposes and future expansion of the Group.

In view of the Group cash generating operations, the Board is of the opinion that the Group has adequate cash resources for current business development requirements and capital expenditure commitment.

Subsequent Events

On 14th October, 2003, the Company entered into a facility agreement with BNP Paribas Hong Kong Branch and 18 other local and international banks in respect of a 3.5-year term loan facility of HK\$380 million.

On 30th October, 2003, the Group has entered into an agreement in relation to an acquisition of 60% equity and economic interests in a timepiece distributor in the PRC. The PRC timepiece distributor has a well-established network of over 210 points of sale in the PRC which cover the major department stores in first and second tiers cities in the PRC. Moreover, the PRC timepiece distributor is an authorized distributor of a Japanese watch brand in designated provinces in the PRC. The consideration is RMB30 million and was satisfied by internal funding.

Employees and Remuneration Policy

As at 30th September, 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 bonus and employee share option scheme which are designed to motivate and reward employees to achieve the Company's business performance targets.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30th September, 2003, the interests or short positions of the directors of the Company and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows: