

DISTRIBUTION

China

The management is extremely confident that the PRC downstream business will prosper and we are upbeat with the various accomplishments we have achieved. We are proud to establish the first Sino-Hong Kong Joint Venture in Chongqing, China formed under the CEPA arrangement with the retail rights and import rights in timepiece. Meanwhile, through organic growth and several equity participations, we have established a nationwide retail and distribution network covering over 560 points of sale in form of concession counters and shop-in-shop with over 30 regional offices supporting distribution and logistics needs. Within this network, we sell numerous international brand names including but not limited to Swatch, Citizen, Timex, Nike Timewear and Elle making the Peace Mark Group the largest distribution network of foreign brand name watches in the PRC.

Out of the 560+ points of sale, 170 points are operated in the form of shop-in-shop within the department stores under a nationwide channel name TimeZone, a retail network 90% owned by the Group. While ongoing integration of common resources amongst our various distribution networks are in the pipeline, our goal is to strategically increase the TimeZone network by increasing our retail presence in key areas while benefiting from the added intangible value to the Group as a consequence of increasing awareness of the name TimeZone amongst the end consumers in China.

In August, the Group entered into an agreement to acquire a controlling stake in an established timepiece distributor, adding 80 points of sale within the Eastern China region. This particular network is responsible for distributing and retailing the renowned Swiss fashion watch brand "Swatch". The management of Peace Mark believes that strong sales will be recorded from this particular network, as the Swatch brand has been very successful in building its brand all over the world.

Our China distribution arms have been managing the distribution networks for over 30 international brands and this network has been providing the latest market intelligence to the brand owners as well as our in house design and product development teams for improved designs and product development exclusively for the PRC market. With the ability to design, manufacture and also participate in the distribution and retail end, Peace Mark is able to capture profit margins within each level of value chain.

Meanwhile, we are undergoing various negotiations with more brands to further strengthen our brand portfolio while working closely together to exploit the lucrative PRC market. It is expected that further integration works will occur in the coming 6 months in order to maximize the levels of synergies within our downstream divisions and achieve better margin.

For the period, the China business accounted for around 14% of the total turnover and we expect the percentage will further increase to the range of 15% for the financial year as a whole. Significant increase in turnover is expected to record in the second half due to the full period financial effect for the acquisitions completed during the first half and the stronger sales during the Christmas and Chinese New Year seasons.

USA

The United States remains as a major and important market to the Group and further efforts were put forward locally and within our US joint venture company Omni Watch & Clock to enhance our long-term market competitiveness for selling direct. The ongoing trend is for major retailers in the United States to source directly from quality and reliable manufacturers as supply chain partners. We have set up an additional office in Bentonville to ensure prompt and speedy services for customer. While the US proves to be a relatively stable market, we were able to expand our direct sales business to new and existing customers and increase our network size by entering into various department stores and other specialty chain stores.

During the period, business to the US experienced steady growth accounting for 48.8% of the Group's turnover which was in line with management's expectations. The percentage of direct selling has been increasing according to the business plan. Due to seasonal factors and Christmas sales, the management expects stronger growth will experience in turnover in the second half of the year.

Europe

2004 marked an important year for the Group's development in Europe. The Group's first luxury Swiss brand Milus experienced further growth by extending its presence within key markets around the world in Germany, Holland, Spain, Russia and Hong Kong. The new series launched during Basel Fair 2004 was well received and the company expects to open up new key markets during Basel Fair 2005 along with other newly developed product lines. New testimonials were also appointed from Russia, Spain, Germany and Hong Kong in order to create further brand awareness within their respective regions.

Furthermore, in line with the Group's intentions to expand into the upscale customer group, a representative office was also established in Paris to strategically identify potential partners and customers from around the European Union and eastern block aiming to exploit new markets and customers for the Group.

FUTURE PROSPECTS AND OUTLOOK

The components production facility which was newly established and in production since August 2004 has demonstrated that we are moving towards manufacturing components for the high-end customers. Our aim is to achieve a balanced mix of production for high-end, mid-market and mass-market products. Peace Mark will further position itself and aims at capturing the benefits from the trend of major companies and retailers buying directly from the manufacturers and consolidating the supply side for better supply chain management.

Regarding China, Peace Mark continues in talk with several fashion brands for sales rights and also, with some of them, for exploring the opportunities in manufacturing. Business plans have been formulated to strengthen the channel name "TimeZone" and additional points of sale and department stores will be added in the coming few months. We shall work closely with the brands we are currently selling in China to devise marketing plans and, together with the expectation that we as their partners in China, could assist them to achieve their country sales target. We are proactive in refining our information system to provide up-to-date marketing information as benchmark for the brand operators to make inventory replenishment decision. On the cost front, integration of support and logistics services of the various distribution operations acquired is underway and we will remove the overlapping of certain resources.

In general, with all these development plans in the pipeline, the management is optimistic about the business future of the Company.

Moving forward, Peace Mark will continue to build a greater global presence and leverage the balance sheet further to pursue new business opportunities, in particular in the China market. With the enlarged production capabilities, solid brand portfolio and the established downstream business setup, the Group is positioned to capture profit margin in each level of the value chain to achieve better overall margins. The management of Peace Mark will closely monitor the integration process of its newly acquired businesses and will continue to broaden the levels of synergies amongst its subsidiaries and will also strive to ensure that shareholders' values are maximized.

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

This period, the turnover was improved by 40.3% up to HK\$860.2 million. The increase in turnover was mainly a combined result of successful execution of the US direct sale business model as well as the further contribution from the distribution and retail of the China business. The gross profit margin was improved to 25.1%. The EBITDA reached a level of HK\$111.3 million representing a margin percentage of 12.9%. The EBIT level and margin percentage were HK\$75.2 million and 8.7% respectively. The net profit recorded was HK\$57.9 million representing a margin percentage of 6.7%. Geographically, the breakdown of turnover was approximately; The Americas of 49%, Asia (ex-China) of 22%, Europe of 15% and China of 14%.