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%.

In April 2004, the Company completed a share placement and raised a net sum of HK$202 million. The proceeds have been applied as intended for the development of the distribution network in China and the expansion of the production facilities. The net gearing ratio (net debt to equity ratio) was maintaining at a comfortable level of 32.8% as at the period end date.

Regarding the working capital management, the total trade and other receivable turnover day was down from 101 days to 88 days as a result of better receivable management. The inventory turnover day was up from 104 days to 106 days. The inventory turnover day was a reflection of the business model of a vertically integrated manufacturer and distributor. However, the management has formulated plans to shorten the inventory turnover day in order to reduce the working capital requirement. The current ratio is standing at 2.1 times at the period end date.

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

NUMBER OF EMPLOYEES AND REMUNERATION POLICY

As at 30th September, 2004, the Group had a total of approximately 4,000 employees worldwide.

The Group remunerates its employees based on their performance, experience and prevailing industry practice. In addition, the Group has established discretionary bonus and employees share options scheme which are designed to motivate and reward employees to achieve the Group's business performance targets.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30th September, 2004, 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")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

The table below sets out the aggregate long positions in the shares and underlying shares of each director of the Company.

	Number of ordinary shares						
Name of director	**Personal interests**	**Family interests**	**Corporate interests**	**Other interests**	**Number of underlying shares held under equity derivatives**	**Total**	**Percentage of issued share capital**
Mr. Chau Cham Wong, Patrick	65,631,077	–	286,740,459	68,416,795 *(note a)*	–	420,788,331	50.43%
Mr. Leung Yung	–		355,157,254	65,631,077 *(note b)*	–	420,788,331	50.43%
Mr. Tsang Kwong Chiu, Kevin	2,098,353	–	–	–	–	2,098,353	0.25%
Mr. Cheng Kwan Ling	246,904	–	–	–	47,000 *(note c)*	293,904	0.04%
Tang Yat Kan	–	120,000 *(note d)*	–	–	–	120,000	0.01%