



Mr. Leung Yung
Chief Executive Officer

Building on the strong foundations laid in the past and adopting a low-risk mergers and acquisitions strategy this year have together enabled Peace Mark to achieve record year end results in both revenue and profit. Growth was achieved through enlarging our manufacturing operations and expanding our global downstream distribution business. Much effort was also put into solidifying our position as a reputable timepiece company with a global perspective.

China - Distribution and Retailing

January 2004 was an important time for the Group as the CEPA scheme allowed Hong Kong companies which met certain criteria to enter into the China market for the distribution and retail businesses. During the period under review, Peace Mark successfully completed the incorporation of a Sino-foreign owned enterprise with a timepiece distribution and retail license. China is the only market where Peace Mark has adopted a strategy to manufacture, distribute and retail its products along the chain without relying on any middlemen. A sales network of 590 points of sale was established throughout China by means of mergers and acquisitions as well as organic growth. The accomplishment of this enabled the Group to gain a first mover advantage over its peers. As a result of various active negotiations with brands and mergers and acquisitions deals with China distributors, the Group's brand portfolio size has significantly grown to over 50 brands within a year.

With over 590 self-operated points of sale, Peace Mark has established the largest timepiece points of sale network in China in terms of the number of

brands as well as the network size. Our competitive advantages include the provision of the only nationwide network that covers the entire country, in which over 80% of the points of sale are located within the first tier cities. Secondly, the network serves as a support to major fashion and watch brands by providing them with a sales platform to penetrate the China market. Furthermore, backed by strong financial resources and a solid manufacturing setup, the Group is in an ideal position to provide a full range of sales and manufacturing services to various international brands.

TIMEZONE

Mid-Market distribution and retailing

As previously mentioned in our interim report, it was the intention of management to strategically increase our retail presence within key areas in order to enhance awareness of the TimeZone channel name. With a view to further strengthen our presence in the mid-market distribution and retail sectors, in April 2005, a new TimeZone store covering 160 square meters was established in Parkson Department Store, Central Huaihai Road, Shanghai, selling over 30 international watch brands. Obtaining such a sizeable retail space in one of the busiest shopping areas in Shanghai exemplified the importance of TimeZone in the watch retail market in China. Looking forward, each point of sale will be larger in size carrying a more extensive brand portfolio and management is currently in close negotiations with various department stores for bigger and improved space allocations.

Given the continuous success of our downstream business in China, the Group's strategy is to continue

to build more points of sale in China. Subsequent to the year end, the Group has further expanded its network from 560 to 590 points of sale. Management targets to grow its network size to 620 points of sale in China by the end of coming financial year and to extend the TimeZone concept to the greater China region. In Taiwan, the Group will convert its existing points of sale and re-brand them to TimeZone. In Hong Kong, we have opened 1 point of sale and are currently in negotiations with major property developers to set up a TimeZone network within various shopping malls. Strategically, the greater China network better positions us to serve international brands throughout the region.

TRENDY TRENDIE

Mid to high-end distribution and retailing

In September 2004, the Group successfully entered into an agreement to acquire a controlling stake in an established timepiece network covering 80 points of sale within the Eastern region of China distributing and retailing a renowned Swiss fashion watch brand. This network was further strengthened in February 2005 through the establishment of 2 additional points of sale under the trade name Trendy Trendie selling high-end fashion timepiece brands such as Dior, Hugo Boss, Emporio Armani, Hermes, Burberry, etc. Given the proven track record and our Group's strategy to cover the whole spectrum of the fashion timepiece market, we intend to expand by 10 additional points of sale in the coming 12 months.

SOLOMON

Luxury retailing

In consideration of the strong consumer purchasing power in Shanghai and the increasing presence of various world renowned luxury brands, as part of

our strategy to enter into the luxury watch retail market, we will open two new shops, one in Pudong and the other in Xintiendi, Shanghai under the trade name of Solomon. With a sound track record in the distribution and retailing of fashion and mid-market watches, luxury groups believe in Peace Mark's capabilities and share the vision of developing the luxury watch market in China. We are able to secure prime retail locations and provide relevant support to assist brands in building up their brand identities. The two Solomon stores are due to open before the end of 2005.

USA – Mass market manufacturing and distribution

Since January 2003, coping with the global trend of buying direct, the Group began its distribution business in the US and has established a proven success record. In the past, much effort was put into further strengthening the US distribution strategy by first setting up additional marketing and distribution offices and by expanding the existing customer base. During the year, the management focused on improving both top and bottom line performance through streamlining the selling, general and administrative expenses while continuing to expand its business into more sports and fashion chains. As previously anticipated by the management, the US distribution business recorded an increase in turnover in this year accounting for 25% of US turnover.

MILUS INTERNATIONAL S.A. – Upscale manufacturing and distribution

Entirely Swiss-made quality watches have been Milus'

distinctive trademark since its foundation in 1919. During the period under review, the sound reputation Milus designs was once again highlighted through the “Chronos Awards” for the category of “Best Lady Watches 2005” where the Milus Tarasea watch placed in the top ten among various world renowned luxury brands. The expert jury was composed of 100 of the best jewelers in Germany, Austria and Switzerland as well as watch collectors, journalists, specialists, watchmakers, technicians and creators.

The Milus brand further built its presence during the 2005 World Watch and Jewellery Fair in Basel where further international key markets have been entered with the help of highly valuable and experienced partners in the high-end watch industry including, but not limited to Russia, the Middle East region, Spain, the United Kingdom and China. Milus has also launched its first jewellery line during the Basel fair 2005 underlining the clear direction of the brand positioning as being focused on the high end female sector where there is an immense growth potential for Milus.

Looking forward, Milus intends to have a presence in all-important international key markets for the watch and jewellery industry. Behind this approach, the brand can constantly grow and successfully compete in all other markets while continuing to build brand awareness and referring sales opportunities within existing markets.

WORLDWIDE – Manufacturing

The vertically integrated production setup continued to serve as a strong base for the long-term success of Peace Mark. An upscale components

manufacturing facility Timetech Industrial Limited began its operations in September 2004 in order to serve the upmarket brands. Backed by a strong design laboratory and short design-to-prototype lead-time, we are able to provide our customers with unmatched turnaround time. Located in Longhua, China, the facility covers 12,000 square meters of space with over 800 employees. The impressive facility is targeted to enter into full production by September 2005. Together with the existing manufacturing capabilities of Peace Mark, we can self-produce a full range of metal timepiece products while also serving various superb customers with high volume, mixed and assorted packaging needs.

Movement Manufacturing

Since June 2004, the Group has entered into production of mechanical timepiece movements through acquiring a 51% equity stake in a movement production facility in Shanghai. After the acquisition, we have upgraded the production facilities and have partly renovated the premises with plans to further improve the facility. The ongoing plan is to partner with various Swiss movement factories to upgrade the overall skill sets and production capabilities to better position the products in foreign markets.

After-Sales Services

To effectively support our downstream expansion plans in China, we have established 28 service points throughout China. Moving forward, we will further expand the network coverage in order to better serve our customers by providing them with easily accessible repair services.