During the Period, the Group recorded a remarkable growth in both top and bottom lines as turnover increased to HK$999 million, up 16.1% over the same period of the 2005 financial year ("FY2005"). The expansion of retail business presence in the Chinese Mainland market emerged as a major driving force behind the revenue growth. The synergy effect arising from manufacturing, distribution and retail operations successfully bolstered overall profitability and margin improvement. The Gross profit, margin at 30.6%, up 41.4% compared to the first half of FY2005. EBITDA, margin at 14.8%, and EBIT, margin at 11.5%, an improvement of 32.4% and 52.0% respectively.

Swatch in Shanghai

REVIEW OF OPERATIONS

Distribution and Retail

China Market

Mid-range fashion brands

With the implementation of CEPA in January 2004, Peace Mark has been aggressively expanding into the distribution and retail market in China to capture the tremendous growth opportunities. A strong distribution and retail network has been established, an asset of significant value to support the Group's further penetration and development in the Mainland.

After completing a series of acquisitions of distributors and retailers in China, Peace Mark consolidated during the Period some of the acquired networks and their support offices in order to achieve better operational and financial efficiency. The successful establishment of a nationwide distribution and retail network laid a solid growth foundation while the logistics infrastructure and information system were put in place as a backbone for future expansion. With continued dedicated efforts, Peace Mark has positioned itself well to widen the penetration into the Mainland market by gearing up the infrastructure establishment.

TimeZone "Mega Shop-in-Shop" in Shanghai

As part of the expansion strategy in China, the Group converted certain outlets of its TimeZone network into much larger and more prominent shop-in-shops within department stores on the Mainland. The shop image and layout have been re-designed to make them more contemporary with a distinguished identity. The new shop image was well received by both the end-consumers and the department stores.

The first two mega shop-in-shop was opened at Parkson Department Store in Shanghai and Chengdu. During the Period, many fashion brands had approached TimeZone for the distribution and retail businesses in China. At present, Peace Mark has more than 50 brands under its distribution and retailing on exclusive or non-exclusive basis. To extend the reach to different customers, TimeZone has spun off a new chain of shops under TimeZone "EEC" (EEC stands for "Exclusive European Collection") for the higher-end fashion brands and "Lady TimeZone" for women's models.

In tandem with the Mainland expansion, TimeZone commenced its retail operation in Hong Kong during the Period. With a retail network of its own, Peak Mark is in a better position to serve the brands' penetration in China and Hong Kong through cross-border advertising and promotional activities. At present, there are 8 retail operations in Hong Kong.

Other than TimeZone, Peace Mark is selling exclusively through its subsidiary the Swatch brand in the eastern part of China including Shanghai. Swatch, being one of the best selling brands in China, is expected to experience strong growth in coming years.

With TimeZone and some other single brand counters, the Group has built up 615 points of sale covering the whole of China. This is the biggest mid-range fashion brands network in China considering the number of points of sale, the number of brands on offer and the coverage of the marketplace. Peace Mark is providing global fashion brands worldwide a solid platform with access to a full range of services from manufacturing, distribution and retail in China.

Luxury watch market

Peace Mark made its foray into the luxury watch retailing in China during the Period. At present, China is ranked the 11th in the world in terms of luxury watches purchase and the market is expected to grow rapidly in coming years. In China's luxury watch market, consumers are looking for varieties of brands and styling from reliable retailers. The Group's successful infrastructure establishment for its mid-range fashion brands has resulted in a shorter learning curve for the development of the luxury watch retailing in China. Solomon Watch & Jewellery, a member of Peace Mark, is targeting to offer luxury brands to the high net-worth customers in the major cities of China. The first Solomon watch shop occupying a gross floor area of 450 square metres was opened at the Jin Mao Lifestyle Centre in Shanghai in August 2005. The business model is different from the traditional watch shops in China as Solomon adopts an active promotional approach in partnership with the brands. After the opening of the first Solomon shop, it has already held five joint promotion campaigns with the brands like Breitling, Ulysse Nardin, Girard-Perregaux, Chronoswiss and Parmigiani. The customer response and the resulting sales of these promotional activities were remarkable. Peace Mark plans to open the second retail watch shop in Shanghai in January 2006. The second shop will be located at Xintiandi occupying a gross floor area of 1,000 square metres, making it the biggest watch shop in China by floor area and offering the most prestige watch brands to the market.

Milus in Basel World 2005

TimeZone "EEC" in Hong Kong

Other than Solomon, Peace Mark also operates boutique shops and shop-in-shop for individual brands. In Chongqing, Peace Mark has established and operated four boutique shops for four brands, namely, Omega, Breguet, Blancpain and Glashutte. In Ningbo, Peace Mark has operated several shops-in-shops for brands like Rolex, Omega, Tudor, Rado and Movado and a Citizen Counter occupying 300 square metres in total in Chengfa Shopping Centre. A boutique shop of approximate 100 square metres for Omega will open soon in Shenzhen.

In June 2005, Milus, Peace Mark's own brand, was ranked the 10th on the top list of the Best Lady Watches 2005 presented by Chronos Magazine in Germany. The expert jury was composed of 100 of the best jewellers in Austria, Germany and Switzerland together with numerous watch specialists, Other than the existing markets like Europe, Russia and Middle East, Milus plans to enter into the China and Singapore markets.

Joint Promotion: Solomon & Ulysse Nardin in Shanghai

Solomon Watch & Jewellery in JinMao Tower, Shanghai

Manufacturing and export business

Peace Mark has 8 production facilities in total. Six production facilities are located in China encompassing components (including movement) making, electroplating and final assembly, one in Hong Kong and one in Switzerland.

Subsequent to the commencement of production at Timetech Industrial Limited in September last year, Peace Mark has strong in-house support of design, prototyping and stainless steel components supply. This state-of-the-art production facility has won the orders from multiples high-end fashion brands. In May 2005, four of the Peace Mark produced brands were awarded the Hong Kong Q-Mark by the Federation of Hong Kong Industries in a further recognition of the Group's commitment to excellency in production. In addition, Mr. Tommy Leung, the CEO of the Group, was appointed as the President of the Hong Kong Watch Manufacturers Association in June 2005 and the Vice-Chairman of the Hong Kong Mould and Die Technology Association in December 2005. This helps further strengthen Peace Mark's position in the industry.

The mechanical watch movement factory in Shanghai has undergone stages of production facilities and labour skill upgrades. The development has been progressing well with a view to teaming with the Swiss counterparts in making mechanical movements.

The production facilities of the Group have strong capability with the utilization rate at approximately 70% as a whole and will be sufficient to cope with future increases in order levels with the out-sourcing support.

In the US market, Peace Mark continued to develop direct contact and communication with the major watch buyers to facilitate sales. This macro trend in supply chain management will benefit the major manufacturers of watches of high quality supply as well as with well-managed distribution capability.

Omni, the US distribution arm, experienced increases in order levels with the support of manufacturing in China. The successful transformation from a manufacturer to an integrated manufacturer and distributor has increased the revenue and margin in the US market despite the pricing pressure from US retailers.

In order to further strengthen the marketing for the European market, Peace mark has set up a marketing subsidiary in France currently employing 9 staff and an marketing office of 20 staff for the German market.

The Group's development of the distribution and retail network in China has generated additional manufacturing business for the fashion brands which had not sourced their supplies from Peace Mark previously. The distribution and manufacturing operations have been complementing each other, creating synergy to drive business growth.

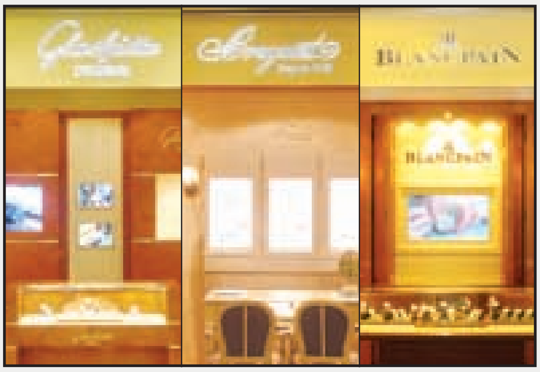
FUTURE PROSPECTS AND OUTLOOK

The solid manufacturing business has been providing a stable revenue stream to the Group while the distribution and retailing operations in China generate increasing revenues. Given the vast opportunities in the Mainland's extremely under-penetrated but fast-growing watch market, Peace Mark is poised to see a respectable growth in both manufacturing and distribution businesses over the medium term.

In China, Peace Mark will further strengthen the business platform for fashion and high-end brands worldwide. TimeZone, in order to gain a deeper penetration into the market, has formulated a plan to set up shop-in-shops in the accessories section of a department store as well as establishing Lady TimeZone outlets in the women's clothing section selling ladies' models. For now, more than 15 TimeZone Lady outlets have been established with the target to increase the number to approximately 40 by the end of FY2006. Similar strategies will be adopted for outlets in the sports' and kids' sections of department stores. More points of sale will be set up in various department store chains in China to reach customers.

Solomon, a trend setter in selling luxury watches on the Mainland, will roll out its unique business model and extend its presence to other major cities in China. Solomon is gaining rising awareness from the Mainland consumers and aims to project an image as "the favourite luxury watch shop in China". With the focus on strengthening the relationship with the brands, Solomon prides itself on the retailer and brand joint marketing effort, which will continue to be one of its core marketing initiatives. The Group has budgeted approximately HK$250 million for the expansion of the luxury watch market in China.

Joint Promotion: Solomon & Parmigiani in Shanghai



Breguet, Blancpain and Glashutte bontique shops in Chongqing

On the manufacturing and export business, Peace Mark will reinforce its position as a supply chain partner for the major retailers. The vertically integrated manufacturing and distribution business model begins to bear fruit after the dedicated efforts in the past two years and this leading edge will be further enhanced to support development. In respect of distribution, Peace Mark has demonstrated its capability in serving the requirements of the retailers who are all satisfied that the strategy will improve the operational efficiency along supply chain.

Going forward, Peace Mark has geared up well to maintain its position as a leading vertically integrated player in the international watch market, given its strong manufacturing capability, fast penetration into the distribution and retail market of China as well as well-developed supply chain relationship with the US retailers.

Lady TimeZone in Chengdu

Golden Time (Mechanical Movement Factory) in Shanghai

FINANCIAL

During the Period, the Group recorded a remarkable growth in both top and bottom lines as turnover increased to HK$999 million, up 16.1% over the same period of the 2005 financial year. The expansion of retail business presence in the Chinese mainland market emerged as a major driving force behind the revenue growth. The synergy effect arising from manufacturing, distribution and retail operations successfully bolstered overall profitability and margin improvement. The gross profit, margin at 30.6%, up 41.4% compared to the first half of FY2005. The expenses associated with sales and marketing, distribution and administration were well managed and controlled at a level of 20.4% of the revenue. With strict control of the expenses, the Group turned in an EBITDA, margin at 14.8% and an EBIT, margin at 11.5%, an improvement of 41.4% and 52.0% respectively.

In terms of geographical breakdown, the Americas, China, Europe and Asia (ex-China) account for 42.3%, 26.2%, 12.8% and 18.7% respectively. The US market has grown in magnitude but decreased by the percentage of total turnover. In terms of business segment breakdown, OEM/ODM manufacturing, license/OBM manufacturing, US distribution and China distribution and retailing were 44.4%, 17.6%, 11.8% and 26.2% respectively. The EBITDA margin for manufacturing, US distribution and China retailing were 10.8% 16.1% and 19.0% respectively. Manufacturing margin stayed at more or less the same level as FY2005 while the higher margin from high-end products were to a certain extent contained by the higher operating costs in China. The EBITDA margin for China retailing continued to improve as the fixed costs were averaged down on increased business turnover.

In respect of the balance sheet, a capital expenditure of HK$58 million was spent during the period including approximately HK$24 million for the maintenance operation and HK$34 million for the POS expansion. Working capital (after trade finance) had been closely monitored and was kept at 21.7% of turnover. In view of the longer business cycle resulting from the integrated manufacturing and distribution businesses, the longer inventory days amidst the trend of retailers pushing back the inventory holding to distributors as well as new inventory added for luxury watch retailing, the inventory turnover was stayed at 27.3% of turnover, an increase of 0.8 point as compared to FY2005. Trade receivables turnover was maintained at 14.8% of turnover. Short-term trade finance in addition to supplier credits had been utilized to fund the working capital requirements. The cost of financing by trade financing was at a much lower rate than trade credits extended by the manufacturing and raw material suppliers. Nevertheless, the operating cash inflow from operating activities after working capital was 7.6% of the turnover.

Subsequent to 31st March, 2005, Peace Mark entered into a 4-year syndicated term loan in the amount HK$630 million with 23 syndicate bankers. The borrowing rate is 0.55% over HIBOR. The purpose of the loan was to extend the maturity profile of the debts, as Peace Mark will continue to be in an expansion mode in the medium term while saving the interest costs. As at 30th September, the percentage of short-term debts to total debts had been reduced from 71% at the year end of FY2005 to 37%.

Cash and bank balances amounting to HK$764 million were highly liquid and available for financing the expansion plans in the distribution and retail businesses in China. The net gearing was 23%. There is room for the balance sheet to further leverage given the highly predictable cash flows of the business.

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

Citizen in Ningbo

Omega in Chongqing

Subsequent to 30th September, 2005, with a view to improving the earnings per share, the Company repurchased its own shares through The Stock Exchange of Hong Kong Limited as follows and all these shares have been duly cancelled:

Month of purchase	Number of ordinary shares of HK$0.1 each	Price per share Highest HK$	Price per share Lowest HK$	Aggregate consideration paid HK'000
October 2005	4,050,000	1.90	1.77	7,551
November 2005	1,920,000	1.88	1.77	3,512

RISK MANAGEMENT

Currency exposure

Peace Mark has been operating its processing factories as well as distributing and retailing in China. The appreciation of RMB has had no significant impact on the group as a whole as to a great extent the RMB exposure has been naturally hedged. For the period, 23% of its operating expenses and cost of goods sold are denominated in RMB while the RMB revenue accounts for a 26% of the total turnover.

Currency forward contracts were entered into for hedging the receipts and payments in foreign currency.

Interest rate exposure

Interest rate swap contracts were secured to hedge against the increase in interest rate. At 30th September, approximately 60% of the debt were swapped to fixed rate and 40% were on floating rate.

NUMBER OF EMPLOYEES AND REMUNERATION POLICY

As at 30th September, 2005, 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, 2005, 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.

Name of director	Personal interests	Family interests	Number of ordinary shares Corporate interests	Other interests	Total	Percentage of issued share capital
Mr. Chau Cham Wong, Patrick	65,631,077	–	296,840,459	28,416,795 *(note a)*	390,888,331	43.16%
Mr. Leung Yung	–	–	325,257,254	65,631,077 *(note b)*	390,888,331	43.16%
Mr. Tsang Kwong Chiu, Kevin	98,353	–	–	–	98,353	0.01%
Mr. Cheng Kwan Ling	293,904	–	–	–	293,904	0.03%
Tang Yat Kan	500,000	740,000 *(note c)*	–	–	740,000	0.08%

Notes:

1. A placing and subscription arrangement was completed in April 2004 (the "Placing and Top Up") whereby Chau Cham Wong, Patrick and other entities controlled by him and Leung Yung, namely, A-One Investments Limited and United Success Enterprises Limited (the "Vendors") were parties acting in concert for the purposes of section 317 of the SFO. Chau Cham Wong, Patrick was deemed to be interested in 28,416,795 shares representing the deemed interests of the other Vendor, United Success Enterprises Limited pursuant to section 317 of the SFO. As a result of the foregoing, Chau Cham Wong, Patrick was deemed to be interested in a total of 390,888,331 shares of the Company.

2. Leung Yung has 49.55% voting control of A-One Investments Limited and 100% voting control of United Success Enterprises Limited, both of which are Vendors acting in concert with him in the Placing and Top Up. He was deemed to be interested in 65,631,077 shares of the Company pursuant to section 317 of the SFO. Consequently, Leung Yung was deemed to be interested in a total of 390,888,331 shares of the Company.

3. Tang Yat Kan was deemed to be interested in 240,000 shares of the Company as these shares are held by his spouse (who was not a director of the Company).

Save as disclosed above and other than certain nominee shares in subsidiaries of the Company being held by the directors in trust for the Company, as at 30th September, 2005, none of the directors of the Company or their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) and during the six months ended 30th September, 2005, none of the directors of the Company, or their spouse or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such rights by any of them, 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 pursuant to the Model Code.

SHARE OPTION SCHEME

Share options are granted to the directors, employees and other eligible persons under the share option scheme (the "Scheme") of the Company adopted on 24th January, 2002. Particulars of the share options outstanding during the period and as at 30th September, 2005 are as follows:

Participants	Number of share options as at 31st March, 2005 and as at 30th September, 2005	Date of grant of share options	Exercise period of share options	Exercise price of share options *HK$*	Price of Company's shares at grant date of options *HK$*
Employees in aggregate	20,000	23/08/2002	23/02/2003 to 23/02/2006	0.2	0.202

No options was granted, exercised, cancelled or lapsed under the Scheme during the period.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30th September, 2005, the following persons (other than the directors of the Company) were substantial shareholders of the Company (as defined in the Listing Rules) and had interests in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name of shareholder	*Note*	Total	Percentage of issued share capital
United Success Enterprises Limited	*a*	390,888,331	43.16%
A-ONE INVESTMENTS LIMITED ("A-ONE")	*b*	390,888,331	43.16%
Arisaig Greater China Fund ("Arisaig")	*c*	87,240,119	9.63%
Arisaig Partners (Mauritius) Limited ("Arisaig Mauritius")	*d*	87,240,119	9.63%
Cooper Lindsay William Ernest ("Mr. Cooper")	*e*	87,240,119	9.63%

Notes:

a. United Success was wholly-owned by Mr. Leung Yung. United Success was one of the parties acting in concert under the Placing and Top Up and so was deemed to be interested in 390,888,331 shares of the Company pursuant to section 317 of the SFO.

b. Mr. Chau Cham Wong, Patrick and Mr. Leung Yung controlled 50.45% and 49.55% of A-ONE respectively. A-ONE was one of the parties acting in concert under the Placing and Top Up, and was deemed to be interested in 390,888,331 shares of the Company pursuant to section 317 of the SFO.

c. This represented a direct holding by Arisaig of the shares of the Company.

d. Arisaig Mauritius was the investment manager of Arisaig. This represented an interest in the shares arised by virtue of Arisaig Mauritius acting as discretionary investment manager of Arisaig pursuant to the SFO.

e. Mr. Cooper was deemed to be interested, through his indirect 33.33% beneficial interest, in Arisaig Mauritius.

Save as disclosed above, the Company has not been notified of any other person (other than the directors of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at 30th September, 2005.

DISCLOSURE WITH RULE 13.18 OF CHAPTER 13 OF THE LISTING RULES

In compliance with the Rule 13.18 of the Listing Rules, the following disclosures are included in respect of a facility agreement dated 22nd April, 2005 relating to a term loan and revolving credit facility in an aggregate amount of HK$630 million (the "Facility") made available to the Company (the "Facility Agreement").

The Facility Agreement contains certain events of default including:

a. if Mr. Chau Cham Wong, Patrick ceases at any time during the subsistence of the Facility Agreement to be the Chairman of the Company and the Group; and

b. if Mr. Chau Cham Wong, Patrick and Mr. Leung Yung collectively are no longer the single largest shareholder of the Company, holding beneficially (direct or indirect) more than 35% of the voting share capital of the Company; or no longer control the Board of the Company.

Upon the occurrence of an event of default under the Facility Agreement and so long as it is continuing, ABN AMRO Bank N. V. as agent may, inter alia, upon instructions from the majority lenders declare that all or part of the Facility, together with accrued interest, and all other amounts accrued under the finance documents as referred to under the Facility Agreement be immediately due and payable.

INTERIM DIVIDEND

The Directors have resolved to declare an interim dividend of 3 HK cents for the six months ended 30th September, 2005 (2004: 2.2 HK cents) payable on Thursday, 26th January, 2006, to shareholders whose names appear on the register of members of the Company on Friday, 13th January, 2006. The dividend per share represents a payout ratio of 34.7%.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 11th January, 2006 to Friday, 13th January, 2006, 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 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on Tuesday, 10th January, 2006.

OTHER DISCLOSURE

Apart from above, other areas which are required to be disclosed under the requirements of paragraph 46 of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited either have no material changes from the information disclosed in the annual report of the Company for the year ended 31st March, 2005 or are considered not significant to the Group's operations, and hence no additional disclosure has been made in this announcement.

CORPORATE GOVERNANCE

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for the six months ended 30th September, 2005, in compliance with the code provisions of the Code on Corporate Governance Practice in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as the Company's code of conduct and rules governing dealings by all directors in the securities of the Company. Having made specific enquiry of all directors of the Company, they all confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30th September, 2005.

PURCHASE, SALES, OR REDEMPTION OF THE COMPANY'S SECURITIES

During the six months ended 30th September, 2005, neither the Company nor any of its subsidiaries repurchased, sold or redeemed any of the listed securities of the Company.

AUDIT COMMITTEE

The Audit Committee comprises 4 members and is chaired by Mr. Wong Yee Sui, Andrew who is a certified public accountant. Other members are Mr. Mak Siu Wing, Clifford, Mr. Kwok Ping Ki, Albert and Mr. Tang Yat Kan. All the committee members are independent non-executive directors of the Company and are well-versed in the accounting, legal and finance areas.

The Committee met with the senior management and the internal and external auditors and reviewed the accounting principles and practices adopted by the Group and other financial reporting matters, ensure the completeness, accuracy and fairness of the financial statements of the Company for the six months ended 30th September, 2005, discuss the effectiveness of the systems of internal control throughout the Group and most importantly, review all significant business affairs managed by the executive directors in particular on connected transactions.

APPRECIATION

The Board is thankful to Peace Mark's business partners, bankers, investors, shareholders and dedicated staff for their continuous support in achieving the Group's achievement.

On behalf of the Board
Chau Cham Wong, Patrick
Chairman

Hong Kong, 19th December, 2005