

DIRECTORS' REPORT

The directors of the Company are pleased to present their report and the audited consolidated financial statements of Peace Mark (Holdings) Limited (the "Company") and its subsidiaries (together with the Company hereinafter referred to as the "Group") for the year ended 31 March 2006.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Details of the principal activities of the Group's principal subsidiaries are set out in note 20 to the financial statements.

SEGMENT INFORMATION

An analysis of the Group's segment information is set out in note 6 to the financial statements.

RESULTS AND APPROPRIATION

Details of the results of the Group for the year ended 31 March 2006 are set out in the consolidated income statement on page 15 of this report and the accompanying notes to the financial statements.

The directors declared an interim dividend of HK3.0 cents per share, totaling HK\$26,992,000, which was paid on 26 January 2006.

The directors recommend the payment of a final dividend of HK4.3 cents per share, totaling HK\$42,580,000, payable on or before 8 September 2006.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results of the Group for the last five financial years and the assets and liabilities of the Group as at the end of the last five financial years is set out on pages 97 to 98 of this report.

RESERVES

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on pages 20 of this report.

Movements in the reserves of the Company during the year are set out in note 36 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 March 2006, the reserves of the Company available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to approximately HK\$435.7 million. In addition, the share premium of the Company, in the amount of approximately HK\$626.6 million, may be distributed in the form of fully paid bonus shares.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and the Company during the year are set out in note 17 to the financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 35 to the financial statements.

BORROWINGS

Details of the Group's and the Company's borrowings and obligations under finance leases are set out in note 32 and note 33 to the financial statements respectively.

RETIREMENT SCHEME BENEFITS

Details of retirement scheme benefits are set out in note 42 to the financial statements.

POST BALANCE SHEET EVENT

Details of the post balance sheet event of the Group which took place subsequent to 31 March 2006 and up to the date of the report are set out in note 45 to the financial statements.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors

Mr. Chau Cham Wong, Patrick (*Chairman*)

Mr. Leung Yung (*Chief Executive Officer*)

Mr. Tsang Kwong Chiu, Kevin (*Chief Financial Officer*)

Mr. Man Kwok Keung

Mr. Cheng Kwan Ling

Independent Non-Executive Directors

Mrs. Susan So

Mr. Kwok Ping Ki, Albert

Mr. Tang Yat Kan

Mr. Wong Yee Sui, Andrew

Mr. Mak Siu Wing, Clifford

Pursuant to articles 87(1) and 87(2) of the Company's Bye-laws, Mr. Man Kwok Keung and Mr. Kwok Ping Ki, Albert shall retire and being eligible to offer themselves for re-election while Mr. Chau Cham Wong, Patrick and Mr. Leung Yung also offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmation from each of the independent non-executive directors concerning their independence to the Company and considers that each of the independent non-executive directors is independent to the Company.

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DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming Annual General Meeting has an unexpired service contract with the Group, which is not terminable by the Group within one year without payment of compensation, other than normal statutory compensations.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company and of the senior management of the Group are set out on pages 41 to 46 of the annual report.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 23 August 2006 to Friday, 25 August 2006, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final 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, 22 August 2006.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

Directors' and officers' liability insurance was maintained during the year.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 March 2006, 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 required to be 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 the Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

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The table below sets out the aggregate long positions in the shares of each director of the Company:

Name of director	Personal interests	Corporate interests	Other interests	Number of underlying shares held under equity derivatives	Total interests	Percentage of total issued share capital (%)
Chau Cham Wong, Patrick	65,631,077	296,840,459	28,416,795 (Note 1)	–	390,888,331	39.49
Leung Yung	–	325,257,254	65,631,077 (Note 2)	–	390,888,331	39.49
Tsang Kwong Chiu, Kevin	98,353	–	–	3,000,000 (Note 3)	3,098,353	0.31
Cheng Kwan Ling	293,904	–	–	1,000,000 (Note 3)	1,293,904	0.13
Man Kwok Keung	–	–	–	1,000,000 (Note 3)	1,000,000	0.10
Tang Yat Kan	–	–	–	500,000 (Note 3)	500,000	0.05
Kwok Ping Ki, Albert	–	–	–	500,000 (Note 3)	500,000	0.05
Mak Siu Wing, Clifford	–	–	–	500,000 (Note 3)	500,000	0.05
Wong Yee Sui, Andrew	–	–	–	500,000 (Note 3)	500,000	0.05
Susan So	–	–	–	500,000 (Note 3)	500,000	0.05

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Notes:

1. Mr. Chau Cham Wong, Patrick was deemed to be interested in 28,416,795 shares for the purposes of section 317 of the SFO, representing the deemed interests in United Success Enterprises Limited ("United Success") in respect of its holdings pursuant to a placing and subscription completed in April 2004 (the "Placing and Top Up"). As a result of the foregoing, Mr. Chau Cham Wong, Patrick was deemed to be interested in a total of 390,888,331 shares of the Company.
2. Mr. Leung Yung has 49.55% voting control of A-ONE Investments Limited ("A-ONE") and 100% voting control of United Success, 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 for the purposes of section 317 of the SFO. Consequently, Mr. Leung Yung was deemed to be interested in a total of 390,888,331 shares of the Company.
3. These interest represented the interest in underlying shares of the Company in respect of share options granted by the Company to these directors as beneficial owners.

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 31 March 2006, 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), which were required to be notified to the Company and 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.

SHARE OPTION SCHEME

Share options are granted to the Directors, employees and other eligible persons under the Share Option Scheme of the Company (the "Scheme") adopted on 24 January 2002. Details of the Scheme are set out in note 37 to the financial statements.

SHARE INCENTIVE SCHEME

On 31 March 2006, the Company adopted a share incentive scheme which the details are set out in note 38 to the financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the share option scheme as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements that enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the directors, their spouses or their children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2006, the following persons (other than directors of the Company) were substantial shareholders of the Company or had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of substantial shareholder	Number of shares in which interested	Percentage of issued share capital
United Success	390,888,331 (Note 1)	39.49
A-ONE	390,888,331 (Note 2)	39.49
Value Partner Limited ("Value Partners")	84,470,000 (Note 3)	8.53
Cheah Cheng Hye ("Mr. Cheah")	84,470,000 (Note 4)	8.53
Arisaig Greater China Fund ("Arisaig")	62,640,119 (Note 5)	6.33
Arisaig Partners (Mauritius) Limited ("Arisaig Mauritius")	62,640,119 (Note 6)	6.33
Cooper Lindsay William Ernest ("Mr. Cooper")	62,640,119 (Note 7)	6.33

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Notes:

1. 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.
2. Mr. Chau Cham Wong, Patrick controlled 50.45% and Mr. Leung Yung controlled 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.
3. Value Partners was interested in 84,470,000 shares of the Company as investment manager.
4. Mr. Cheah was deemed to be interested, through his indirect 32.77% beneficial interest, in Value Partners.
5. This represented a direct holding by Arisaig of the shares of the Company.
6. Arisaig Mauritius was the investment manager of Arisaig. This represented an interest in and the shares arising by virtue of Arisaig Mauritius acting as discretionary investment manager of Arisaig pursuant to the SFO.
7. Mr. Cooper was deemed 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 directors of the Company) who had an interest or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors of the Company, as at the date of this report, the company has maintained the prescribed public float under the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year, the Company repurchased 5,970,000 ordinary shares of the Company in the Stock Exchange of Hong Kong Limited at an aggregate consideration of approximately HK\$11,063,000 before expenses. The repurchased shares were subsequently cancelled. The repurchase was effected by the Directors for the enhancement of shareholders value in the long term. Details of the shares repurchased are as follows:

Month of repurchase	Number of shares repurchased	Price per shares		Aggregate price paid HK\$'000
		Highest	Lowest	
		HK\$	HK\$	
October 2005	4,050,000	1.90	1.77	7,551
November 2005	1,920,000	1.88	1.77	3,512
Total	5,970,000			11,063

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws and there are no restrictions against such rights under the laws in Bermuda which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

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DISCLOSURE UNDER RULE 13.18 OF CHAPTER 13 OF THE LISTING RULES

- (1) In compliance with the Rule 13.18 of the Listing Rules, the following disclosures are included in respect of a facility agreement dated 22 April 2005 relating to a term loan and revolving credit facility in an aggregate amount of HK\$630,000,000 (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 (directly or indirectly) more than 35% of the voting share capital of the Company; or no longer control the board of directors 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.

- (2) In compliance with the Rule 13.18 of the Listing Rules, the following disclosures are included in respect of a facility agreement dated 5 June 2006 relating to a term loan facility in an aggregate amount of HK\$600,000,000 (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 (directly or indirectly) more than 30% of the voting share capital of the Company; or no longer have management control of the Company.

Upon the occurrence of an event of default under the Facility Agreement and so long as it is continuing, Sumitomo Mitsui Banking Corporation 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.

CONNECTED TRANSACTIONS

- (1) On 31 March 2006, the Group entered into a subscription agreement and shareholders' agreement, pursuant to which the Group, Tourneau Investment LLC ("Tourneau Investment") and Beat Time Group Limited ("Beat Time") will establish Peace Mark Tourneau (Holdings) Limited ("Peace Mark Tourneau") as a joint venture to engage in the supply, wholesale, retail and distribution of luxury-brand timepieces for the high-end market in Mainland China, Hong Kong, Macau and Taiwan. Upon its establishment, Peace Mark Tourneau will be owned by the Group, Tourneau Investment and Beat Time in the proportion of 65%, 25% and 10%, respectively.

The Group has also granted an option to Tourneau Investment to acquire from it a 14% interest in Peace Mark Tourneau at the par value of such capital.

Peace Mark Tourneau and Tourneau also entered into a trademark license agreement on 31 March 2006 whereby Tourneau will grant an exclusive right to Peace Mark Tourneau to use the trademark of "Tourneau". As Tourneau Investment will become a substantial shareholder of Peace Mark Tourneau which will be a subsidiary of the Company, the transactions contemplated under the Trademark License Agreement will constitute continuing connected transactions for the Company under the Listing Rules.

The Directors (including the independent non-executive Directors) consider that (i) the payment of the royalties and the transactions contemplated under a trademark license agreement ("Trademark License Agreement") are entered into in the usual and ordinary course of business of the Group; (ii) their terms being fair and reasonable in so far as the Company and the shareholders of the Company (the "Shareholders") are concerned have been negotiated and will be conducted on an arm's length basis and on normal commercial terms between Peace Mark Tourneau and Tourneau; (iii) the annual caps thereunder are fair and reasonable in so far as the Company and the Shareholders are concerned; and (iv) the transactions contemplated under the Trademark License Agreement are in the interests of the Company and the Shareholders as a whole.

As the annual cap of the royalties under the Trademark License Agreement is expected to be less than 2.5 of the percentage ratios (other than the profits ratio) under the Listing Rules, the transactions are exempt from the independent Shareholders' approval under Rule 14A.34 of the Listing Rules and the Company is required to comply with the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules.

The Company is also required to comply with the annual review requirements under Rules 14A.37 to 14A.40 of the Listing Rules for the Royalties. If the annual cap of the royalties under the Trademark License Agreement is exceeded or when the Trademark License Agreement is renewed or there is a material change to the terms thereof, the Company will need to re-comply with Rules 14A.35(3) and (4).

- (2) The details of other connected transactions made during the year were set out in note 15 to the financial statements according to the Listing Rules.

In the opinion of the independent non-executive directors, these transactions entered into by the Group were:

- (a) in the ordinary and usual course of business of the Group;

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- (b) either (a) on normal commercial terms; or (b) where there is re-available comparison, on terms that were fair and reasonable so far as the shareholders of the Company are concerned; and
- (c) either (a) in accordance with the terms of the agreements; or (b) where there are no such agreements, on terms no less favourable than those available to or from independent third parties;

Save as disclosed above, there were no other transactions which are required to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 March 2006, the five largest ultimate customers to whom the goods were exported by the Group together accounted for not more than 50% of the Group's turnover for which the largest ultimate customer accounting for not more than 10%, and the five largest suppliers of the Group accounted for not more than 80% of the Group's purchases for which the largest supplier accounting for approximately 30%.

Save as disclosed above, none of the Directors, their associates nor any shareholder who, to the knowledge of the Directors own more than 5% of the Company's share capital, had an interest in any of the five largest suppliers or customers.

AUDITORS

The financial statements for the year ended 31 March 2006 were audited by Messrs. Chu and Chu, Certified Public Accountants. A resolution will be submitted to the forthcoming Annual General Meeting of the Company to reappoint them as auditors.

On behalf of the Board



Chau Cham Wong, Patrick
Chairman

Hong Kong
13 July 2006