THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular, you should consult a stockbroker, or other registered dealer in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Peace Mark (Holdings) Limited, you should at once hand this circular with the enclosed form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

This circular is addressed to the shareholders of Peace Mark (Holdings) Limited in connection with the special general meeting to be held on 1st August, 2002. This circular is not and does not constitute an offer of, nor is it intended to invite offers for, shares in or other securities in Peace Mark (Holdings) Limited.

Peace Mark (Holdings) Limited

(Incorporated in Bermuda with limited liability)

PROPOSED RIGHTS ISSUE ON THE BASIS OF TWO RIGHTS SHARES FOR EVERY ONE EXISTING SHARE HELD, APPLICATION FOR THE GRANTING OF THE WHITEWASH WAIVER AND GENERAL MANDATE TO ISSUE SHARES

Financial adviser to Peace Mark (Holdings) Limited

BNP PARIBAS PEREGRINE

Independent financial adviser to the Independent Board Committee

Somerley Limited

Underwriters of the Rights Issue

TIS Securities (HK) Limited

A-ONE INVESTMENTS LIMITED

A letter of advice from the independent financial adviser, Somerley Limited, to the Independent Board Committee is set out on pages 26 to 43 of this circular.

It should be noted that the last day of dealing in the Shares on a cum-rights basis is Wednesday, 24th July, 2002. Existing Shares will be dealt with on an ex-rights basis from Thursday, 25th July, 2002. To qualify for the Rights Issue, a Qualifying Shareholder's name must appear on the register of members of the Company on the Record Date, which is currently expected to be Thursday, 1st August, 2002. In order to be registered as members on the Record Date, any transfers of Shares (with the relevant share certificates) must be lodged for registration by 4:00 p.m. on the closing of the share register which is expected to be on Friday, 26th July, 2002.

A notice convening the SGM to be held at Unit 3, 12th Floor, Cheung Fung Industrial Building, 23-39 Pak Tin Par Street, Tsuen Wan, Hong Kong at 9:00 a.m. on Thursday, 1st August, 2002 is set out on pages 118 to 122 of this circular. Whether or not you are able to attend the meeting in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit with the Company's head office and principal place of business in Hong Kong at Unit 3, 12th Floor, Cheung Fung Industrial Building, 23-39 Pak Tin Par Street, Tsuen Wan, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the SGM. Completion and return of the form of proxy will not preclude you from attending and voting at the SGM should you wish.

It should be noted that TIS Securities at its sole discretion may terminate the Underwriting Agreement by notice in writing to the Company if at any time between the date of the Underwriting Agreement and 4:00 p.m. on the date of acceptance and payment for the Rights Shares, which is expected to be on or about Tuesday, 20th August, 2002, or such other date to be agreed between the Company and the Underwriters, one or more of the following events or matters (whether or not forming part of a series of events) shall occur, arise, or exist:

(a) the occurrence, happening, coming into effect or public knowledge of any local, national or international event of a financial, political, economic, monetary, military or other nature whether or not sui generis with any of the foregoing resulting in a material adverse change in, or which would reasonably be expected to result in a material adverse change in the business or prospects of the Group taken as a whole or materially and adversely affect the success of the Rights Issue; or

(b) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise; or

(c) the introduction of any new law or regulation or any change in existing law or regulation or the interpretation thereof by the courts (or in the absence of judicial interpretation, which is commonly accepted) or the introduction or change in any policy or guideline whether or not having the force of law or other occurrence of any nature whatsoever which would materially and adversely affect the business or prospects of the Group taken as a whole; or

(d) any material adverse change in market conditions of Hong Kong or international securities markets (or in conditions affecting a sector only of the market) occurs which in the reasonable opinion of TIS Securities make it inexpedient or inadvisable to proceed with the Rights Issue; or

(e) the Prospectus disclosing any new fact or circumstance, which in the reasonable opinion of TIS Securities, constitutes a material adverse change in the financial or trading position of the Group taken as a whole in or in its prospects, from that disclosed in the Announcement and/or the audited consolidated financial statements of the Group for the year ended 31st March, 2001 and/or public announcements of the Company made prior to the date of the Underwriting Agreement; or

(f) any of the warranties or representations given by the Company in the Underwriting Agreement is or becomes no longer true and accurate in every respect which is material in the context of the Rights Issue; or

(g) any breach of the undertakings by A-ONE and/or the shareholders of A-ONE, Mr. Patrick Chau and Mr. Leung Yung, of their undertakings in relation to the financial resources of A-ONE being sufficient for A-ONE to perform its obligations under the Underwriting Agreement; or

(h) the Company commits any breach or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement.

16th July, 2002

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EXPECTED TIMETABLE

	2002
Despatch of this circular to Shareholders	Tuesday, 16th July
Last day of dealings in Shares on a cum-rights basis	Wednesday, 24th July
First day of dealings in Shares on an ex-rights basis	Thursday, 25th July
Latest time for lodging transfers of Shares	4:00 p.m. on Friday, 26th July
Register of members closed (both dates inclusive)	Monday, 29th July to Thursday, 1st August
Latest time for lodging forms of proxy for the SGM	9:00 a.m. on Tuesday, 30th July
SGM	9:00 a.m. on Thursday, 1st August
Record Date for the Rights Issue	Thursday, 1st August
Announcement of results of the SGM	Friday, 2nd August
Register of members re-opens	Friday, 2nd August
Despatch of the Prospectus Documents	Monday, 5th August
First day of dealings in nil-paid Rights Shares	Wednesday, 7th August
Latest time for splitting nil-paid Rights Shares	4:00 p.m. on Monday, 12th August
Last day of dealings in nil-paid Rights Shares	Thursday, 15th August
Latest time for payment for and acceptance of Rights Shares	4:00 p.m. on Tuesday, 20th August
Rights Issue expected to become unconditional	Thursday, 22nd August
Announcement of results of acceptance of the Rights Issue	Friday, 23rd August

	2002
Despatch of refund cheques in respect of wholly or partially unsuccessful excess applications	Friday, 23rd August
Certificates for fully-paid Rights Shares expected to be despatched on or before	Friday, 23rd August
First day of dealings in the fully-paid Rights Shares	Tuesday, 27th August

Dates or deadlines specified in this circular for events in the timetable for (or otherwise in relation to) the Rights Issue are indicative only and may be exercised or varied by agreement between the Company and the Underwriters. Any consequential changes to the expected timetable will be published by way of public announcements.

In this circular, the following expressions have the meanings set out below unless context otherwise requires:

"Announcement"	the announcement dated 6th June, 2002 made by the Company in relation to the Rights Issue and the Whitewash Waiver
"A-ONE"	A-ONE INVESTMENTS LIMITED, an investment holding company incorporated in the British Virgin Islands, which is owned as to 50.45% by Mr. Patrick Chau and 49.55% by Mr. Leung Yung and which is an underwriter of the Rights Issue
"associate"	has the meaning ascribed thereto under the Listing Rules
"Board"	the board of directors of the Company
"BNP Paribas Peregrine"	BNP Paribas Peregrine Capital Limited, the financial adviser to the Company in relation to the Rights Issue and an investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"Company"	Peace Mark (Holdings) Limited, a company incorporated in Bermuda, the shares of which are listed on the Stock Exchange
"Director(s)"	director(s) of the Company
"Executive"	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
"General Mandate"	the general and unconditional mandate to the Directors to exercise all the powers of the Company to allot, issue and otherwise deal with new Shares not exceeding 20% of the issued share capital of the Company as enlarged by the Rights Issue

"Group"	the Company and its subsidiaries
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Independent Board Committee"	an independent committee of the Board consisting of the independent non-executive Directors, namely Sir Oswald Cheung, The Honourable Lau Wong Fat and Ms. Susan So, to advise the Independent Shareholders in respect of the Rights Issue and the Whitewash Waiver
"Independent Shareholders"	shareholders of the Company, other than Mr. Patrick Chau and Mr. Leung Yung, any of their associates and parties acting in concert with any of them and any other Shareholders who are interested in or involved in the Rights Issue or the Underwriting Agreement or are deemed by the Stock Exchange to be connected persons of the Company
"Latest Practicable Date"	12th July, 2002, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Mr. Patrick Chau"	Chau Cham Wong, Patrick, a substantial shareholder of the Company who holds 10.18% interests in the existing issued share capital of the Company
"ODM"	original design manufacturing, whereby manufacturer owns the design of the products and such products are marketed under the customer's own brand name
"OEM"	original equipment manufacturing, whereby products are manufactured in accordance with the designs and instructions of a customer and are marketed by the customer under the customer's own brand name

"Overseas Shareholder(s)"	the Shareholder(s) whose name(s) appear on the register of members of the Company on the close of business on the Record Date and whose registered address(es) as shown on such register are outside Hong Kong where, in the opinion of the Board, the Rights Shares may not be conveniently offered to them, without compliance with registration and/or other legal or regulatory requirements in such jurisdictions
"Posting Date"	the date on which the Prospectus Documents are despatched by the Company to the Qualifying Shareholders, which is expected to be on or about Monday, 5th August, 2002 or such other date as the Company and the Underwriters may agree
"Prospectus"	a prospectus to be issued by the Company in relation to the Rights Issue
"Prospectus Documents"	the Prospectus together with the provisional allotment letter and the form of application for excess Rights Shares
"PRC"	the People's Republic of China
"Qualifying Shareholder(s)"	the Shareholder(s), other than the Overseas Shareholder(s), whose name(s) appear on the register of members of the Company on the Record Date and whose address(es), as shown on such register of members of the Company, are in Hong Kong
"Record Date"	being the date for determining entitlement to the Rights Shares, which shall be a date falling on or within 3 days from the date of the SGM and is expected to be on Thursday, 1st August, 2002
"Rights Issue"	the rights issue of two Rights Shares for every one existing Share held
"Rights Share(s)"	new Share(s) to be issued under the Rights Issue
"SDI Ordinance"	Securities (Disclosure of Interests) Ordinance, Chapter 396 of the Laws of Hong Kong

"SFC"	Securities and Futures Commission of Hong Kong
"SGM"	the special general meeting of the Company to be convened on or about Thursday, 1st August, 2002 or such other date as the Company and the Underwriters may agree to approve, inter alia, the Rights Issue, the Underwriting Agreement and the Whitewash Waiver
"Share(s)"	share(s) of HK$0.10 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Somerley"	Somerley Limited, the independent financial adviser to the Independent Board Committee and an investment adviser and exempt dealer registered under the Securities Ordinance, Chapter 333 of the Laws of Hong Kong
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	The Hong Kong Code on Takeovers and Mergers
"TIS Securities"	TIS Securities (HK) Limited, a securities dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong), an underwriter of the Rights Issue
"Underwriters"	A-ONE and TIS Securities
"Underwriting Agreement"	the agreement dated 6th June, 2002 (as amended by a supplemental deed relating to the Underwriting Agreement dated 8th July, 2002) entered into between the Company, Mr. Patrick Chau, Mr. Leung Yung and the Underwriters in relation to the Rights Issue
"United Success"	United Success Enterprises Limited, a company incorporated in the British Virgin Islands which is wholly-owned by Mr. Leung Yung

"Whitewash Waiver"	a waiver from the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code in respect of the obligations of A-ONE, Mr. Patrick Chau, Mr. Leung Yung and parties acting in concert with any of them to make a mandatory general offer for all Shares other than those already owned or agreed to be acquired by A-ONE, Mr. Patrick Chau, Mr. Leung Yung or parties acting in concert with any of them which would otherwise arise as a result of A-ONE subscribing for Rights Shares under the terms of the Underwriting Agreement or otherwise pursuant to the Rights Issue
"HK$"	Hong Kong Dollar, the lawful currency of Hong Kong

Peace Mark (Holdings) Limited
(Incorporated in Bermuda with limited liability)

Executive Directors:
Chau Cham Wong, Patrick *(Chairman)*
Leung Yung *(Managing Director)*
Tsang Kwong Chiu, Kevin
Man Kwok Keung
Cheng Kwan Ling

Independent non-executive Directors:
Sir Oswald Cheung *C.B.E., LL.D., D.Soc.Sc., J.P.*
The Honourable Lau Wong Fat *G.B.S., J.P.*
Susan So

Registered office:
Clarendon House
Church Street
Hamilton HM11
Bermuda

Principal office in Hong Kong:
Unit 3 12th Floor
Cheung Fung Industrial Building
23-39 Pak Tin Par Street
Tsuen Wan
Hong Kong

16th July, 2002

To the Shareholders

Dear Sir or Madam,

PROPOSED RIGHTS ISSUE ON THE BASIS OF TWO RIGHTS SHARES FOR EVERY ONE EXISTING SHARE HELD, APPLICATION FOR THE GRANTING OF THE WHITEWASH WAIVER AND GENERAL MANDATE TO ISSUE SHARES

INTRODUCTION

It was announced on 6th June, 2002 that the Company proposed to issue, by way of rights, 367,822,300 Rights Shares at HK$0.18 each. The Company will provisionally allot two Rights Shares in nil-paid form for every one existing Share held by the Qualifying Shareholders on the Record Date.

Mr. Patrick Chau and Mr. Leung Yung are the substantial Shareholders and each of them was interested in approximately 10.18% and 10.00% of the existing issued share capital of the Company as at the Latest Practicable Date. Each of Mr. Patrick Chau and Mr. Leung Yung has irrevocably undertaken to the Company and the Underwriters that the Shares beneficially owned by each of them will remain registered in their names from the date of the Announcement to the Record Date and that they will take up their entitlements, amounting in aggregate 74,243,832 Rights Shares, under the Rights Issue in full.

Pursuant to the Underwriting Agreement, the Rights Shares other than the Rights Shares to be issued to and accepted by Mr. Patrick Chau and Mr. Leung Yung have been fully underwritten by the Underwriters.

A-ONE, a company beneficially owned by Mr. Patrick Chau and Mr. Leung Yung will act as one of the Underwriters under the Underwriting Agreement. In the event that A-ONE is called upon to take up its underwriting obligations under the Underwriting Agreement in full, the aggregate shareholding interests of A-ONE, Mr. Patrick Chau, Mr. Leung Yung and parties acting in concert with any of them in the issued share capital of the Company as enlarged by the Rights Issue would be increased to approximately 62.06%. If the fulfillment by A-ONE of all or part of its underwriting commitment causes the aggregate shareholding interests of A-ONE, Mr. Patrick Chau, Mr. Leung Yung and parties acting in concert with any of them in the issued share capital of the Company as enlarged by the Rights Issue to exceed 30%, that will trigger a mandatory general offer under Rule 26 of the Takeovers Code by A-ONE, Mr. Patrick Chau, Mr. Leung Yung and parties acting in concert with any of them, for all Shares other than those already owned or agreed to be acquired by A-ONE, Mr. Patrick Chau and Mr. Leung Yung or parties acting in concert with any of them. A-ONE, Mr. Patrick Chau, Mr. Leung Yung and parties acting in concert with any of them do not intend to make a general offer. An application has been made by A-ONE, Mr. Patrick Chau and Mr. Leung Yung to the Executive for the Whitewash Waiver from the obligation to make a mandatory general offer as a result of the Rights Issue and any Rights Shares to be subscribed pursuant to the Rights Issue or under the Underwriting Agreement pursuant to Note 1 on dispensations from Rule 26 under the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, inter alia, the approval of the Independent Shareholders' vote taken by way of poll at the SGM. The Executive has indicated that the Whitewash Waiver will be granted, subject to the approval of the Independent Shareholders by way of poll.

In view of Mr. Patrick Chau's and Mr. Leung Yung's interests in A-ONE and in the Rights Issue, they and parties acting in concert with any of them shall abstain from voting at the SGM.

As Mr. Tsang Kwong Chiu, Kevin, Mr. Man Kwok Keung and Mr. Cheng Kwan Ling are salaried executive Directors, they are therefore not considered to be independent for the purpose of advising the Independent Shareholders in respect of the Rights Issue and the Whitewash Waiver. As such, the Independent Board Committee comprising Sir Oswald Cheung, The Honourable Lau Wong Fat and Ms. Susan So, all of whom are independent non-executive Directors, has been established to advise the Independent Shareholders on terms of the Rights Issue and the Whitewash Waiver. In connection therewith, Somerley has been appointed as the independent financial adviser to the Independent Board Committee.

The purpose of this circular is to (i) give you further information on, inter alia, the Rights Issue, the Underwriting Agreement, the Whitewash Waiver and the General Mandate, (ii) to set out the recommendation of the Independent Board Committee and the advice of Somerley to the Independent Board Committee in relation to the Rights Issue and the Whitewash Waiver; and (iii) to give you notice of the SGM at which resolutions approving the Rights Issue, the Underwriting Agreement, the Whitewash Waiver and the General Mandate will be sought.

THE RIGHTS ISSUE

Issue statistics

Basis of the Rights Issue:	two Rights Shares for every one existing Share held on the Record Date at a subscription price of HK$0.18 per Rights Share
Number of Shares in issue:	183,911,150 Shares as at the Latest Practicable Date
Number of Rights Shares:	367,822,300 Shares

The 367,822,300 nil-paid Rights Shares proposed to be provisionally allotted represent 200.00% of the existing issued share capital of the Company and approximately 66.67% of the Company's share capital as enlarged by the issue of the Rights Shares.

The options granted under the share option scheme of the Company adopted on 15th January, 1993 had been cancelled or lapsed during the year ended 31st March, 2002. A new share option scheme was adopted by the Company on 24th January, 2002, under which no options were granted as at the Latest Practicable Date. As at the Latest Practicable Date, the Company had no outstanding options, warrants or convertible securities.

Qualifying Shareholders

The Company will send the Prospectus Documents to the Qualifying Shareholders only and the Prospectus, for information only, to the Overseas Shareholders.

To qualify for the Rights Issue, a Shareholder must:

- be registered as a member of the Company on the Record Date; and
- have an address in Hong Kong which appears on the register of members of the Company on the Record Date.

In order to be registered as members on the Record Date, Shareholders must lodge any transfers of Shares (together with the relevant share certificates) with the Company's branch registrar in Hong Kong at Secretaries Limited, 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong by 4:00 p.m. on Friday, 26th July, 2002.

Closure of register of members

The register of members of the Company will be closed from Monday, 29th July, 2002 to Thursday, 1st August, 2002 both dates inclusive. No transfers of Shares will be registered during this period.

Subscription price for the Rights Shares

HK$0.18 per Rights Share payable in full upon acceptance of the assured entitlements and (where applicable) application for excess Rights Shares under the Rights Issue.

Such subscription price represents:

- a discount of about 66.67% to the closing price of HK$0.54 per Share as quoted on the Stock Exchange on 5th June, 2002 (being the last trading day immediately preceding the release of the Announcement);
- a discount of about 34.55% to the closing price of HK$0.275 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- a discount of about 14.29% to the theoretical ex-rights price of approximately HK$0.21 per Share based on the closing price per Share as quoted on the Stock Exchange on the Latest Practicable Date.

Such subscription price was determined after arm's length negotiations with TIS Securities. The Directors consider the terms of the Rights Issue are fair and reasonable and the Rights Issue is in the interests of the Company and its Shareholders as a whole.

Status of the Rights Shares

The Rights Shares (when allotted and fully-paid) will rank pari passu with the then existing Shares in all respects. Holders of fully-paid Rights Shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date of allotment and issue of the Rights Shares.

Nil-paid Rights Shares are expected to be traded in board lots of 10,000 Shares. Dealing in the Rights Shares in both the nil-paid and fully-paid forms registered in the branch registrar of the Company in Hong Kong will be subject to the payment of stamp duty in Hong Kong.

Certificates for Rights Shares

Subject to the fulfillment of the conditions of the Rights Issue, certificates for all fully-paid Rights Shares are expected to be posted by Friday, 23rd August, 2002 to those who have accepted and (where applicable) applied for, and paid for the Rights Shares at their own risk.

Rights of Overseas Shareholders

The Prospectus Documents will not be registered under the applicable securities legislation of any jurisdictions other than Hong Kong and Bermuda. The Company will send the Prospectus to the Overseas Shareholders for their information only and will not send provisional allotment letters or application forms for excess Rights Shares to the Overseas Shareholders. However, Overseas Shareholders are entitled to vote at the SGM.

Arrangements will be made for Rights Shares which would otherwise have been provisionally allotted to the Overseas Shareholders to be sold in the market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence, if a premium (net of expenses) can be obtained. The proceeds of such sale, less expenses, of HK$500 or more will be paid pro rata to the Overseas Shareholders. The Company will retain individual amount of less than HK$500.

Fractional entitlements

As the basis of the Rights Issue is two Rights Shares for every one existing Share held on the Record Date, there will be no fractional entitlement to the Rights Shares.

Application for excess Rights Shares

The Qualifying Shareholders are entitled to apply for unsold entitlements of the Overseas Shareholders and any nil-paid Rights Shares provisionally allotted but not accepted.

Applications for excess Rights Shares may be made by completing the appropriate excess application form and a separate remittance for the excess Rights Shares. The Directors will allocate the excess Rights Shares at their discretion on a fair and reasonable basis.

Mr. Patrick Chau and Mr. Leung Yung have not indicated whether they will apply for any excess Rights Shares as at the Latest Practicable Date.

Application for listing

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares, in both the nil-paid and fully-paid forms to be issued and allotted pursuant to the Rights Issue. There is no other stock exchange on which any part of the securities of the Company is listed or dealt in on which listing or permission to deal is being or proposed to be sought.

Subject to the granting of listing of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange, the Rights Shares in their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement dates of dealings in the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

UNDERWRITING ARRANGEMENT

Underwriting Agreement

Date	:	6th June, 2002
Underwriters	:	(i) A-ONE, an investment holding company which is owned as to 50.45% by Mr. Patrick Chau and 49.55% by Mr. Leung Yung; and (ii) TIS Securities, which is independent of, and not acting in concert with, the directors, chief executive or substantial shareholders of the Company, any of its subsidiaries or any of their respective associates.
Number of Rights Shares underwritten by A-ONE	:	a maximum of 231,078,468 Rights Shares or in the proportion of approximately 78.71% of the Rights Shares to be underwritten by the Underwriters
Number of Rights Shares underwritten by TIS Securities	:	a maximum of 62,500,000 Rights Shares or in the proportion of approximately 21.29% of the Rights Shares to be underwritten by the Underwriters
Commission payable to A-ONE	:	1.50% of the aggregate subscription price of the Rights Shares to be underwritten by A-ONE

Commission payable to TIS Securities	:	2.50% of the aggregate subscription price of the Rights Shares to be underwritten by TIS Securities

The Company approached several securities houses in Hong Kong including TIS Securities. Based on the results of negotiation between the Company and the securities houses, the Directors consider that the terms offered by TIS Securities are the best available to the Company and in the interests of the Shareholders as a whole. The terms of the Underwriting Agreement were determined after arm's length negotiations between the Company and TIS Securities. TIS Securities agreed to underwrite an amount of about HK$11.3 million, which is equivalent to approximately 21.29% of the underwritten Rights Shares. In view of the current market conditions and the difficulty in finding other underwriters to underwrite the Rights Shares on terms acceptable to the Company, Mr. Patrick Chau and Mr. Leung Yung agreed to underwrite the remaining 78.71% of the underwritten Rights Shares through A-ONE.

Since A-ONE is an associate of both Mr. Patrick Chau and Mr. Leung Yung who are the substantial Shareholders and executive Directors, the Underwriting Agreement is a connected transaction for the Company which is exempted from the Shareholders' approval requirements pursuant to Rule 14.24(6)(c) of the Listing Rules.

As at the Latest Practicable Date, each of Mr. Patrick Chau and Mr. Leung Yung was interested in 18,730,416 Shares and 18,391,500 Shares, representing approximately 10.18% and 10.00% of the existing issued share capital of the Company respectively. The aggregate interests of Mr. Patrick Chau, Mr. Leung Yung and parties acting in concert with any of them in the existing issued share capital of the Company were approximately 20.18%. Each of Mr. Patrick Chau and Mr. Leung Yung has irrevocably undertaken to the Company and the Underwriters that the Shares beneficially owned by each of them will remain registered in their names from the date of the Announcement to the close of business on the Record Date and that they will take up their entitlements, amounting in aggregate of 74,243,832 Rights Shares, under the Rights Issue in full. Save as disclosed herein, none of the Shareholders (including the Directors who have beneficial interests in the Shares) has irrevocably undertaken if taking up their entitlements under the Rights Issue as at the Latest Practicable Date.

Whitewash Waiver

In the event that the Underwriters are called upon to take up their underwriting obligations under the Underwriting Agreement in full, the respective shareholding interests of A-ONE and TIS Securities in the issued share capital of the Company as enlarged by the Rights Issue would be approximately 41.88% and 11.33% respectively. Accordingly, in the event that A-ONE is called upon to take up its underwriting obligation under the Underwriting Agreement in full, the aggregate shareholding interests of A-ONE, Mr. Patrick Chau, Mr. Leung Yung and parties acting in concert with any of them in the issued share capital of the Company as enlarged by the Rights Issue would be increased to approximately 62.06%. If the fulfillment by A-ONE of all or part of its underwriting commitment causes the aggregate shareholding interests of A-ONE, Mr. Patrick Chau, Mr. Leung Yung and parties acting in concert with any of them in the issued share capital of the Company as enlarged by the Rights Issue to exceed 30%, that will trigger a mandatory general offer under Rule 26 of the Takeovers Code by A-ONE, Mr. Patrick Chau, Mr. Leung Yung and parties acting in concert with any of them, for all Shares other than those already owned or agreed to be acquired by A-ONE, Mr. Patrick Chau, Mr. Leung Yung or parties acting in concert with any of them. An application has been made by A-ONE, Mr. Patrick Chau and Mr. Leung Yung to the Executive for the Whitewash Waiver from the obligation to make a mandatory general offer as a result of the Rights Issue and any Rights Shares to be subscribed pursuant to the Rights Issue or under the Underwriting Agreement pursuant to Note 1 on dispensations from Rule 26 under the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, inter alia, the approval of the Independent Shareholders' vote taken by way of poll at the SGM. The Executive has indicated that the Whitewash Waiver will be granted, subject to the approval of the Independent Shareholders by way of poll. If the Whitewash Waiver is not approved by the Independent Shareholders, the Rights Issue will not proceed.

Shareholding structure

The existing shareholding structure and the shareholding structure immediately after completion of the Rights Issue of the Company are as follows:

	Existing		**Immediately after completion of the Rights Issue (assuming existing Shareholders taking up their entitlements in full under the Rights Issue)**		**Immediately after completion of the Rights Issue (assuming the Rights Shares fully underwritten by the Underwriters)**	
	Shares	*%*	*Shares*	*%*	*Shares*	*%*
Mr. Patrick Chau	18,730,416	10.18	56,191,248	10.18	56,191,248	10.18
Mr. Leung Yung	18,391,500	10.00	55,174,500	10.00	55,174,500	10.00
A-ONE	–	–	–	–	231,078,468	41.88
Subtotal of A-ONE and its concert parties	37,121,916	20.18	111,365,748	20.18	342,444,216	62.06
TIS Securities	–	–	–	–	62,500,000	11.33
Public Shareholders	146,789,234	79.82	440,367,702	79.82	146,789,234	26.61
Total	183,911,150	100.00	551,733,450	100.00	551,733,450	100.00

If the aggregate shareholding interests of A-ONE, Mr. Patrick Chau, Mr. Leung Yung and parties acting in concert with any of them after completion of the Rights Issue are in the range of 30% to 50% of the enlarged issued share capital of the Company, they will be subject to the 2% creeper as set out in the Takeovers Code.

If the aggregate shareholding interests of A-ONE, Mr. Patrick Chau, Mr. Leung Yung and parties acting in concert with any of them after completion of the Rights Issue exceed 50% of the enlarged issued share capital of the Company, A-ONE, Mr. Patrick Chau, Mr. Leung Yung and parties acting in concert with any of them can acquire further Shares without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.

Termination of the Underwriting Agreement

TIS Securities may, in addition to and without prejudice to any other remedies to which the Underwriters may be entitled, by notice in writing to the Company terminate the Underwriting Agreement forthwith if at any time between the date of the Underwriting Agreement and 4:00 p.m. on the date of acceptance and payment for the Rights Shares, which is expected to be on or about Tuesday, 20th August, 2002 or such other date to be agreed between the Company and the Underwriters, one or more of the following events or matters (whether or not forming part of a series of events) shall occur, arise, or exist:

(a) the occurrence, happening, coming into effect or public knowledge of any local, national or international event of a financial, political, economic, monetary, military or other nature whether or not sui generis with any of the foregoing resulting in a material adverse change in, or which would reasonably be expected to result in a material adverse change in the business or prospects of the Group taken as a whole or materially and adversely affect the success of the Rights Issue; or

(b) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise; or

(c) the introduction of any new law or regulation or any change in existing law or regulation or the interpretation thereof by the courts (or in the absence of judicial interpretation, which is commonly accepted) or the introduction or change in any policy or guideline whether or not having the force of law or other occurrence of any nature whatsoever which would materially and adversely affect the business or prospects of the Group taken as a whole; or

(d) any material adverse change in market conditions of Hong Kong or international securities markets (or in conditions affecting a sector only of the market) occurs which in the reasonable opinion of TIS Securities make it inexpedient or inadvisable to proceed with the Rights Issue; or

(e) the Prospectus disclosing any new fact or circumstance, which in the reasonable opinion of TIS Securities, constitutes a material adverse change in the financial or trading position of the Group taken as a whole or in its prospects, from that disclosed in the Announcement and/or the audited consolidated financial statements of the Group for the year ended 31st March, 2001 and/or public announcements of the Company made prior to the date of the Underwriting Agreement; or

(f) any of the warranties or representations given by the Company in the Underwriting Agreement is or becomes no longer true and accurate in every respect which is material in the context of the Rights Issue; or

(g) any breach of the undertakings by A-ONE and/or the shareholders of A-ONE, Mr. Patrick Chau and Mr. Leung Yung, in relation to the financial resources of A-ONE being sufficient for A-ONE to perform its obligations under the Underwriting Agreement; or

(h) the Company commits any breach or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement.

In the event that the Underwriting Agreement shall have been terminated, all obligations of the Underwriters under the Underwriting Agreement shall cease and no party shall have any claim against any other parties in respect of any matter or thing arising out of or in connection with the Underwriting Agreement and the irrevocable undertakings entered into by Mr. Patrick Chau and Mr. Leung Yung save in respect of any antecedent breach. The Underwriters' right to terminate will be exercised in the sole discretion of TIS Securities and accordingly, A-ONE itself does not have the discretionary power to terminate the Underwriting Agreement. If the Underwriters exercise such right, the Rights Issue will not proceed.

CONDITIONS OF THE RIGHTS ISSUE

The Rights Issue is conditional upon, among other things, each of the following events:

(a) the Listing Committee of the Stock Exchange having granted (subject only to provisional allotment and/or allotment of the Rights Shares and any other matters required by the Stock Exchange) the listing of and permission to deal in the Rights Shares (both nil-paid and fully-paid) on the Stock Exchange by no later than the Posting Date and such listing and permission to deal not being revoked prior to 4:00 p.m. on the date of acceptance and payment for the Rights Shares, which is expected to be on or about Tuesday, 20th August, 2002 or such other date to be agreed between the Company and the Underwriters;

(b) the registration of the Prospectus Documents (with all the documents required to be attached thereto by Section 342C of the Ordinance) (all having been duly authorised for registration by the Stock Exchange and signed by or on behalf of two Directors) by the Registrar of Companies in Hong Kong in compliance with the Ordinance by no later than the Posting Date;

(c) the filing of the Prospectus Documents with the Registrar of Companies in Bermuda by no later than the Posting Date;

(d) the granting of the Whitewash Waiver and the satisfaction of all conditions attached therein no later than the Posting Date;

(e) the passing by the Board of resolutions on or before the date of the SGM (which is expected to be on or about Thursday, 1st August, 2002 or such other date as the Company and the Underwriters may agree), to approve, inter alia, the following:

(i) the Rights Issue;

(ii) the entering into the Underwriting Agreement by the Company; and

(iii) the Whitewash Waiver;

(f) the passing by Independent Shareholders at the SGM (which is expected to be on or about Thursday, 1st August, 2002 or such other date as the Company and the Underwriters may agree), of ordinary resolutions to approve by poll and authorise, inter alia, the following:

(i) the Rights Issue;

(ii) the entering into the Underwriting Agreement by the Company; and

(iii) the Whitewash Waiver;

(g) the posting of the Prospectus Documents to the Qualifying Shareholders;

(h) the entering into of the irrevocable undertakings by each of Mr. Patrick Chau and Mr. Leung Yung that the Shares beneficially owned by each of them will remain registered in their names from the date of the Announcement to the

Record Date and they will take up their entitlements under the Rights Issue in full and that such irrevocable undertakings shall remain valid and effective on the date of acceptance and payment for the Rights Shares, which is expected to be on or about Tuesday, 20th August, 2002 or such other date to be agreed between the Company and the Underwriters;

(i) the compliance by A-ONE and the shareholders of A-ONE (i.e. Mr. Patrick Chau and Mr. Leung Yung) of the undertakings and representations in relation to the financial resources of A-ONE being sufficient for A-ONE to perform its obligation under the Underwriting Agreement; and

(j) if required, the granting of consent to the Rights Issue by the Bermuda Monetary Authority.

The Company, Mr. Patrick Chau, Mr. Leung Yung and the Underwriters have agreed not to waive the condition set out in (d) above. Accordingly, the Rights Issue will not proceed in the event that condition (d) is not fulfilled. In the event that all the conditions of the Rights Issue are not fulfilled on or before the relevant time and date or dates stated above (or such other date as the Company and the Underwriters may agree provided that the Posting Date shall be no later than Saturday, 31st August, 2002), the Underwriters shall have the right to terminate the Underwriting Agreement by giving notice to the Company. Accordingly, all obligations of the Underwriters shall cease and terminate and no party shall have any claim against any other party in connection with the Underwriting Agreement (including the irrevocable undertakings provided by Mr. Patrick Chau and Mr. Leung Yung) save in respect of antecedent breach.

WARNING OF THE RISK OF DEALING IN SHARES AND RIGHTS SHARES

Existing Shares will be dealt in on an ex-rights basis from Thursday, 25th July, 2002. Dealings in the Rights Shares in the nil-paid form will take place from Wednesday, 7th August, 2002 to Thursday, 15th August, 2002 (both dates inclusive). If the conditions of the Rights Issue as stated in the Underwriting Agreement are not fulfilled and TIS Securities elects to exercise the Underwriters' right to terminate the Underwriting Agreement, the Rights Issue will not proceed.

Any Shareholders or other persons contemplating selling or purchasing Shares and/or Rights Shares in their nil-paid form during the period from Wednesday, 7th August, 2002 to Thursday, 15th August, 2002 who are in any doubt about their position are recommended to consult their professional advisers. Any Shareholders or other persons dealing in Shares up to the date on which all the conditions to which the Rights Issue is subject are fulfilled (and the date on which the Underwriters' right of termination ceases) and any persons dealing in the nil-paid Rights Shares during the period from Wednesday, 7th August, 2002 to Thursday, 15th August, 2002 will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed.

REASONS FOR AND USE OF PROCEEDS OF THE RIGHTS ISSUE

The Company is an investment holding company which, through its subsidiaries, is principally engaged in the design, manufacture and distribution of timepieces on ODM, OEM and licence bases. In the past few years, the Group has been transforming from an OEM to an ODM, brandname manufacturer and distributor. The Group has been increasingly involved in the design, manufacture and distribution of various fashion and sports brandnames.

To stay ahead of the rapidly changing and competitive marketplace, the Group has to strengthen its distribution network globally in order to provide a wide range of services along the supply chain to its customers. To this end, the Group is actively seeking opportunities to expand its distribution capability with a view to creating higher profit margin for its business.

In accordance with the objectives stated above and in conjunction with the PRC's accession to World Trade Organisation, the Group has been planning to extend its watches distribution network in the PRC and to establish a distribution arm in the United States.

The Company did not undertake any equity fund raising exercise for the past 12 months. The Company has explored alternative methods of raising finance. In November 2001, the Company arranged a HK$200 million 3-year syndicated term loan facility for the purposes of refinancing an existing facility, improvement in production facilities, expansion in distribution network and general working capital purposes. The syndicated loan agreement includes a number of financial and other covenants on the part of the Company, in particular, the consolidated net borrowings of the Company (as defined in the syndicated loan agreement dated 7th November, 2001) shall not at any time exceed a certain percentage of its consolidated net worth (as defined in the syndicated loan agreement dated 7th November, 2001). Based on the Company's audited consolidated balance sheet as at 31st March, 2002, the Company was operating within the relevant limits as stipulated in the syndicated loan agreement aforementioned. However, in considering the financing of the expansion of the distribution network, the Board considers that the Company should adopt a prudent view and raise additional capital needed (approximately HK$63 million) by way of an equity issue.

As at 31st March, 2002, the Group had cash and bank balances of approximately HK$154.4 million. The Directors consider that maintaining cash and bank balances equivalent to about two months of the Group's turnover is in line with industry standard of similar manufacturing business. The average turnover of the Group per month for the year ended 31st March, 2002 was approximately HK$77.6 million. In addition, the indebtedness of the Group as at 31st May, 2002, as set out in appendix I to this circular, amounted to approximately HK$471.0 million, of which approximately HK$233.0 million is due in less than one year. In view of the indebtedness, the Directors consider that it is prudent for the Group to maintain a substantial cash position.

The gearing ratio of the Group, measured by reference to the total debts to Shareholders' equity as at 31st March, 2002, was approximately 76.9%. Upon completion of the Rights Issue, Shareholders' equity of the Group will be increased by approximately HK$63 million. Also, such ratio of the Group will be improved from 76.9% to approximately 68.9% as a result of the Rights Issue. The Directors including the independent non-executive Directors believe that the Rights Issue will enable the Group to explore the opportunities to expand its distribution capability as described above and consider that it is in the interests of the Company and the Shareholders as a whole to strengthen the Group's capital base and financial position through the Rights Issue.

The estimated expenses of the Rights Issue are approximately HK$3 million, which will be borne by the Company. The net proceeds of the Rights Issue are expected to be approximately HK$63 million and are intended to be used as follows:

- about HK$24 million for establishing a distribution arm in the United States;
- about HK$10 million for promoting the Group's licensed products through the distribution arm aforementioned;
- about HK$20 million for developing the Group's distribution network in the PRC; and
- the remaining balance for use as the general working capital of the Group.

The Directors noted that the Company's share price has fallen from HK$0.54 on 5th June, 2002, the last trading day before the Announcement, to HK$0.275 on the Latest Practicable Date. The Directors believe that the Rights Issue is fundamental to the Group's growth and that, despite the initial fall in the Share price, the Rights Issue will benefit the Group and the Shareholders in the long run.

If the Rights Issue does not proceed, it is likely that the Directors would have to give up their plans for expanding the Group's distribution network for the foreseeable future which will likely jeopardise the commercial development of the Group. The consequence of giving up the expansion plan could lead to further deterioration in profit margin and reduce Shareholders' long-term return on their investments. Cancellation of the Rights Issue, however, would not put the immediate survival of the Group in doubt.

INFORMATION ON THE GROUP

Business

The Company is an investment holding company. The Group is principally engaged in the design, manufacture and distribution of timepieces on ODM, OEM and licence bases.

Financial information

The following table sets out a summary of the audited results of the Group for the two years ended 31st March, 2002:

	Year ended 31st March, 2002 (Audited) *HK$' million*	**Year ended 31st March, 2001 (Audited and restated)** *HK$' million*
Turnover	931	852
Net profit	36	26

As at 31st March, 2002, the audited net tangible assets value of the Group was approximately HK$492 million.

INFORMATION ON MR. PATRICK CHAU, MR. LEUNG YUNG AND A-ONE

As at the Latest Practicable Date, each of Mr. Patrick Chau and Mr. Leung Yung was interested in approximately 10.18% and 10.00% of the issued share capital of the Company respectively and A-ONE did not own any Shares in the Company. Accordingly, the aggregate interests of A-ONE, Mr. Patrick Chau, Mr. Leung Yung and parties acting in concert with any of them in the existing issued share capital of the Company were 20.18% as at the Latest Practicable Date.

Mr. Patrick Chau is the Chairman and is responsible for overall strategic planning and business development. Mr. Chau has over 28 years' experience in the watch and clock industry. He served as a director of the Hong Kong Watch and Clock Manufacturing Association from 1984 to 1993 and as the co-chairman of the Hong Kong Watch and Clock Fair. He has been with the Group for over 11 years.

Mr. Leung Yung, is the Managing Director and is responsible for strategic planning, business development, marketing and product research and development. He is a director of the Hong Kong Watch and Clock Manufacturing Association. He joined the Group since it was founded and has over 35 years experience in the timepiece industry.

Mr. Patrick Chau and Mr. Leung Yung are acting in concert with each other in relation to the Company for the purpose of the Takeovers Code. A-ONE, Mr. Patrick Chau and Mr. Leung Yung or persons acting in concert with any of them have not acquired any voting rights in the Company and have not dealt in any Shares in the period from the six months prior to the date of the Announcement, and thereafter up to the date ended on the Latest Practicable Date.

A-ONE is an investment holding company incorporated in the British Virgin Islands and is owned as to 50.45% by Mr. Patrick Chau and 49.55% by Mr. Leung Yung.

INTENTIONS OF A-ONE, MR. PATRICK CHAU AND MR. LEUNG YUNG

A-ONE, Mr. Patrick Chau and Mr. Leung Yung have no intention to discontinue the business of the Company or introduce any major changes to the business, including any redeployment of the fixed assets of the Company or discontinue the employment of the employees of the Company and of its subsidiaries. As at the Latest Practicable Date, no agreement, arrangement or understanding (including compensation arrangement) existed between A-ONE, Mr. Patrick Chau and Mr. Leung Yung for the transfer of the beneficial interests in the Rights Shares to be subscribed by them to any other persons.

GENERAL MANDATE

A resolution will be put to the Shareholders at the SGM to approve the granting of an unconditional general mandate to the Directors to allot, issue and deal with new Shares up to a maximum of 20% of the aggregate amount of the issued share capital of the Company as enlarged by the issue of Rights Shares under the Rights Issue.

The General Mandate will take effect upon completion of the Rights Issue and will continue in force until the conclusion of the next annual general meeting of the Company unless it is renewed at such meeting or until revoked or varied by an ordinary resolution of the Shareholders in a general meeting prior to the next annual general meeting or until the expiration of the period within which the next annual general meeting of the Company is required to be held by any applicable law or the Bye-laws of the Company, whichever occurs earlier.

The Directors have no immediate plans to issue any Shares pursuant to the General Mandate. However, the Directors consider the General Mandate to be in the interests of the Company and the Shareholders as a whole.

SGM

There is set out on pages 118 to 122 a notice convening the SGM to be held at Unit 3, 12th Floor, Cheung Fung Industrial Building, 23-39 Pak Tin Par Street, Tsuen Wan, Hong Kong on Thursday, 1st August, 2002, at 9:00 a.m. at which ordinary resolutions will be proposed to the Independent Shareholders to approve, among other things:

(a) the Rights Issue;

(b) the Underwriting Agreement;

(c) the Whitewash Waiver; and

(d) the General Mandate.

A form of proxy for use at the SGM is enclosed. Whether or not you are able to attend the SGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit with the Company's head office and principal place of business in Hong Kong at Unit 3, 12th Floor, Cheung Fung Industrial Building, 23-39 Pak Tin Par Street, Tsuen Wan, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the SGM. Completion and return of the form of proxy will not preclude you from attending and voting at the SGM should you so wish.

Only Independent Shareholders will be permitted to vote by poll on resolutions proposed to approve the Rights Issue, the Underwriting Agreement and the Whitewash Waiver.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 25 of this circular. Your attention is also drawn to the letter of advice from Somerley which contains, among other things, its advice to the Independent Board Committee in respect of the Rights Issue and the Whitewash Waiver and the principal factors and reasons considered by it in arriving at such advice. The text of the letter from Somerley is set out on pages 26 to 43 of this circular.

GENERAL

Your attention is drawn to the additional information set out in the appendices to this circular and the notice of the SGM.

Yours faithfully,
Chau Cham Wong, Patrick
Chairman

Peace Mark (Holdings) Limited

(Incorporated in Bermuda with limited liability)

16th July, 2002

To the Independent Shareholders

Dear Sir or Madam,

We have been appointed to advise you in connection with the Rights Issue and the Whitewash Waiver, details of which are set out in the Letter from the Board contained in the circular of the Company dated 16th July, 2002 (the "Circular"), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

Having considered the terms of the Rights Issue and the Whitewash Waiver and the advice of the independent financial adviser, Somerley, in relation thereto as set out on pages 26 to 43 of the Circular, we concur with the view of Somerley that the terms of the Rights Issue are, on balance, fair and reasonable and that the Rights Issue price represents sound fundamental value to Shareholders. We therefore recommend the Independent Shareholders to vote in favour of the Rights Issue with a view to taking up their entitlements under the Rights Issue in full, as it should promote the long-term development of the Group.

Independent Shareholders are reminded that if they do not take up their Rights Issue entitlements, the dilution they will suffer in terms of shareholding percentage and asset value per Share will be severe.

We also recommend the Independent Shareholders to vote in favour of the Whitewash Waiver to allow the Rights Issue to proceed on the reasons that (i) the Rights Issue is in the interest of the Company and is fair and reasonable to the Independent Shareholders as all of them will be entitled to the Rights Issue; (ii) the Rights Issue is conditional upon the granting of the Whitewash Waiver; (iii) the purpose of the Whitewash Waiver is to facilitate the Rights Issue; and (iv) the interests of the Independent Shareholders will not be prejudiced as no general offer will be made by A-ONE and its concert parties in any event. In the circumstances, we consider the granting of the Whitewash Waiver to be fair and reasonable.

Yours faithfully,

Independent Board Committee

Sir Oswald Cheung	**The Honourable Lau Wong Fat**	**Susan So**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

The following is the text of a letter of advice from Somerley, the independent financial adviser to the Independent Board Committee, regarding the Rights Issue and the Whitewash Waiver prepared for the purpose of inclusion in this circular:

Somerley Limited
Suite 3108
One Exchange Square
8 Connaught Place
Central
Hong Kong

16th July, 2002

The Independent Board Committee
Peace Mark (Holdings) Limited
Unit 3, 12th Floor
Cheung Fung Industrial Building
23-39 Pak Tin Par Street
Tsuen Wan
Hong Kong

Dear Sirs and Madam,

PROPOSED RIGHTS ISSUE ON THE BASIS OF TWO RIGHTS SHARES FOR EVERY ONE EXISTING SHARE HELD AND APPLICATION FOR THE GRANTING OF THE WHITEWASH WAIVER

We refer to our appointment to advise the Independent Board Committee in respect of the terms of the Rights Issue and the application for the granting of the Whitewash Waiver, details of which are contained in a circular to the Shareholders dated 16th July, 2002 (the "Circular"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

The Rights Issue is fully underwritten by A-ONE and TIS Securities as to 78.71% and 21.29% respectively of the total number of underwritten Rights Shares. TIS Securities is an independent securities house. A-ONE is an investment holding company owned as to 50.45% by Mr. Patrick Chau and as to 49.55% by Mr. Leung Yung. Mr. Patrick Chau is the Chairman of the Company and Mr. Leung Yung is the Managing Director of the Company. By virtue of Mr. Patrick Chau's and Mr. Leung Yung's interests in A-ONE, they are not eligible to advise the Independent Shareholders in respect of the Rights Issue and the Whitewash Waiver and will abstain from voting at the SGM on the resolutions in respect of the Rights Issue and the Whitewash Waiver. Mr. Tsang Kwong Chiu, Kevin, Mr. Man

Kwok Keung and Mr. Cheng Kwan Ling are executive Directors and salaried employees of the Company and are therefore considered not sufficiently independent to advise the Independent Shareholders in respect of the Rights Issue and the Whitewash Waiver. In the circumstances, Sir Oswald Cheung, The Honourable Lau Wong Fat and Ms. Susan So, being independent non-executive Directors, have been appointed members of the Independent Board Committee to advise the Independent Shareholders as regards the terms of the Rights Issue and the Whitewash Waiver. We have been appointed as financial adviser to the Independent Board Committee, in which capacity our role is to give an independent opinion as to whether the terms of the Rights Issue and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned.

In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and the management of the Company. We have assumed that all representations made to us are true, accurate and complete and that the information contained in the Circular is true and accurate and will continue to be so up to the date of the SGM. We have relied on such representations and information accordingly.

We have sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed by the Directors. We consider that we have been provided with sufficient information to reach an informed view and have no reason to doubt the truth, accuracy or completeness of the information provided. We have not, however, conducted an independent investigation into the affairs of the Group or the prospects of the industry in which it operates.

It is emphasised that we do not accept responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, holding or disposal of the Rights Shares or otherwise. In particular, Shareholders subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering the fairness and reasonableness of the terms of the Rights Issue and the Whitewash Waiver, we have taken into consideration the following principal factors and reasons:

1. Reasons for the Rights Issue

The Company is an investment holding company which, through its subsidiaries, is principally engaged in the design, manufacture and distribution of timepieces on ODM, OEM and licence bases.

In order to stay abreast of a rapidly changing and highly competitive marketplace, the Group has been taking steps in the past few years to change its emphasis from OEM to ODM manufacturing. It has invested in machinery to enable the Company to reduce its reliance on suppliers and to increase its control over product quality, costs and delivery times. The Group has also been increasingly involved in the design, manufacture and distribution of watches under various fashion and brand names to broaden its income stream.

The changes to the Group implemented by the Board as stated above have assisted the Group to achieve a higher volume of turnover since 2000. In the financial years 2000, 2001 and 2002, the Group recorded turnover of HK$821.2 million, HK$852.4 million and HK$931.2 million respectively. However, due to the decrease in price obtainable from customers because of the global economic downturn, the profit margin has been deteriorating. The Group recorded a profit margin of 8.5% for the financial year 2000, which dropped to 5.9% for year 2001, and dropped further to 5.3% in year 2002.

In order to counter the deterioration in profit margin, the Board plans to strengthen its distribution network by providing a wider range of services along the distribution chain. The Board believes that downstream integration will create higher value-added for its products and hence improve the profit margin. At the same time, downstream integration will reduce or eliminate the costs of middlemen. After a thorough review of market conditions, the Board has decided to establish a distribution arm in the United States and to extend its watch distribution network in the PRC.

The United States has been the largest market of the Group. For the year ended 31st March, 2001, it accounted for HK$504.6 million (59.2%) of the turnover of the Group and HK$63.5 million (59.2%) of the gross profit of the Group net of distribution cost. In the financial year ended 31st March, 2002, the US market continued to be the largest market of the Group, accounting for HK$505.3 million (54.3%) of the turnover of the Group and HK$57.9 million (54.3%) of the gross profit of the Group net of distribution cost. As the US market is the Group's principal source of income, the Board intends to secure its current position and to strengthen the Group's presence and market share in the US market by establishing a distribution arm in the United States.

The Board also plans to extend its distribution capacity in the PRC. The Board believes that with the increasing affluence of the Chinese population and the PRC's accession into the World Trade Organisation, there will be potential in the domestic market and it will be beneficial for the Group to set up a distribution network to capitalise on this trend.

The Board considers that as the establishment and development of a distribution network is long term in nature, it is best funded by equity capital. Accordingly, provided that the Board is satisfied that the Group's present internal resources are not sufficient for this purpose and that outside capital is needed, we consider it reasonable for the Company to raise the necessary funds by way of the Rights Issue as compared to other means of fund raising.

Our analysis and opinion on the financial position of the Group, in particular, the availability of internal resources are as discussed in the sections below.

2. Use of proceeds

As stated in the paragraph headed "Reasons for and use of proceeds of the Rights Issue" in the letter from the Board in the Circular, the Board estimates that the net proceeds of the Rights Issue, after expenses of approximately HK$3 million, will be approximately HK$63 million. It is the intention of the Board that the estimated net proceeds will be used as follows:

- about HK$24 million for establishing a distribution arm in the United States;
- about HK$10 million for promoting the Group's licensed products through the United States distribution arm;
- about HK$20 million for developing its distribution network in the PRC; and
- the remaining balance of about HK$9 million for use as general working capital of the Group.

We have reviewed the reports provided by the Company on the feasibility of establishing a distribution arm in the United States and the development of a distribution network in the PRC. We consider that the proposed use of proceeds as stated above is in line with the funding requirement of the expansion plan of the Group's distribution networks as stated in those reports. The Board has confirmed that save for the required funding discussed above, no further injection of fund for the expansion of the above mentioned distribution networks will be necessary in the near future.

3. Group liquidity

As at 31st March, 2002, the Group held cash balances of HK$154.4 million. It may appear therefore that the HK$63 million needed to fund the establishment of the distribution network could be satisfied by the existing cash reserves, thus avoiding the adverse effect on the Share price (see paragraph 6, "Recent trading prices and volume of the Shares and effect on the Shareholders" below). However, the Directors have explained that, given the nature of the business, the Group needs to operate with cash reserves equal to approximately two months' turnover of the Group. One month can be considered as a reserve against a slowing by customers in settling receivables. The second month is a reserve against the need to increase raw material purchases as orders expand. The Group maintained similar level of cash reserves of about 1.7 and 1.4 months' turnover of the Group for the year ended 31st March, 2000 and 2001 respectively.

As set out in the annual report of the Group, the "Trade and other receivables" increased by HK$75.7 million from HK$267.2 million in 2001 to HK$342.9 million in 2002. This build-up of the "Trade and other receivables" was a result of the slow down of settlement by customers and the extension of credit terms (90-120 days) by the Group to its customers, at the same price, to sustain the Group's business in the period of economic slowdown.

The Group has been adopting the trade payable policy of making use of bank borrowings to pay its suppliers as the Group has lower cost of borrowing than the cost of supplier credits of approximately 8% per annum due to the Group's listing status and strong financial position. "Trade and other payables" reduced from HK$35.5 million as at 31st March, 2001 to HK$28.2 million as at 31st March, 2002. This policy enables the Group to maintain a lower production cost.

The inventories position of the Group as at 31st March, 2002 was HK$156.1 million, representing an increase of approximately HK$30.3 million as compared to inventories of the Group of HK$125.8 million as at 31st March, 2001. Such increase was to accommodate the increase in orders placed by customers during the said period.

The above figures illustrate that the Company requires additional funds to finance a build-up of both receivables and inventories. Although we are not in a position to assess whether the credit and inventory management policy adopted by the Group are necessary, once these policies have been adopted, it does in our view require either use of the Company's own cash resources or short-term borrowings backed by substantial cash resources.

The following table analyses the liquidity trends of the Group:

	31st March, 2001	**30th September, 2001**	**31st March, 2002**
	HK$m	*HK$m*	*HK$m*
	(audited)	*(unaudited)*	*(audited)*
Cash on hand and bank deposits	108.8	138.5	154.4
Loans and other interest bearing borrowings and lease obligations			
– current portion	(198.8)	(250.7)	(205.8)
– non-current portion	(57.7)	(37.4)	(214.8)
Borrowings, net of cash (B)	(147.7)	(149.6)	(266.2)
Net asset value (A)	461.1	496.3	547.3
Ratio of borrowings, net of cash to net asset value (B/A)	32.0%	30.1%	48.6%

As shown in the above table, as at 31st March, 2001 the Group's cash and bank balances were HK$108.8 million and increased to HK$154.4 million as at 31st March, 2002. Although the cash and bank balances of the Group have been increasing, borrowings, net of cash have at the same time been increasing to approximately HK$266.2 million as at 31st March, 2002 mainly because of the drawdown of a HK$200 million 3-year syndicated term loan facility obtained by the Group in November 2001 (the "Syndicated Loan") to refinance an existing HK$85 million facility of the Group, to improve the Group's production facilities and as general working capital. The ratio of borrowings net of cash to net asset value of the Group has also increased from 32.0% as at 31st March, 2001 to 48.6% as at 31st March, 2002, which was again largely due to the Syndicated Loan.

Given borrowings amounting to HK$205.8 million as at 31st March, 2002 were due in less than one year, the management considers that it is prudent for the Group to maintain a substantial cash position.

4. Group purchases of fixed and other assets

The Group had also incurred substantial cash outflows in the last two years to fund purchases of fixed and other assets. The table below shows the fixed and intangible assets of the Group as at 31st March for the period from 2000 to 2002:

	31st March, 2000 *HK$m* *(audited)*	**31st March, 2001** *HK$m* *(audited)*	**31st March, 2002** *HK$m* *(audited)*
Fixed assets	144.0	240.7	292.9
Intangible assets (being technical know-how, licence and trademark)	31.4	8.0 *(Note)*	43.9

Note: The decrease in intangible assets from HK$31.4 million in 2000 to HK$8 million in 2001 was largely due to disposal of technical know-how and licences.

As shown in the table above, fixed assets have increased by HK$96.7 million from the year 2000 to 2001 and by HK$52.2 million from the year 2001 to 2002. These increases are largely attributable to leasehold and leasehold property improvements in the amount of approximately HK$63.8 million and improvement of production facilities in the amount of approximately HK$72.6 million during the period from 2000 to 2002.

The above table also shows that the intangible assets of the Group have increased by HK$35.9 million from the year 2001 to 2002. The Directors have advised us that the increase in 2002 was largely attributable to the acquisition by the Group of a Swiss trademark to manufacture and distribute watches.

In addition, in September 2001, the Company incurred expenditure of approximately HK$31.5 million to buy out from Goldpfeil Aktiengesellschaft the 45% minority interest in Capricon Company Limited, which through its subsidiary Capricon Industrial (Shenzhen) Co. Ltd., held the Group's main factory. The transaction secured the Group a 100% interest in the domestic sales rights of the factory's watch in the PRC and additional 5,700 square meters floor area for production line.

Based on the above analysis, the Group had committed substantially more to the purchase of fixed and other assets over the last two years than its retained earnings of HK$62.2 million in this period. The Company's last issue of new equity capital was over two years ago, in April 2000. In our opinion, it is reasonable for the Board to consider an equity issue for the Group's funding needs at this juncture.

5. Indebtedness of the Group

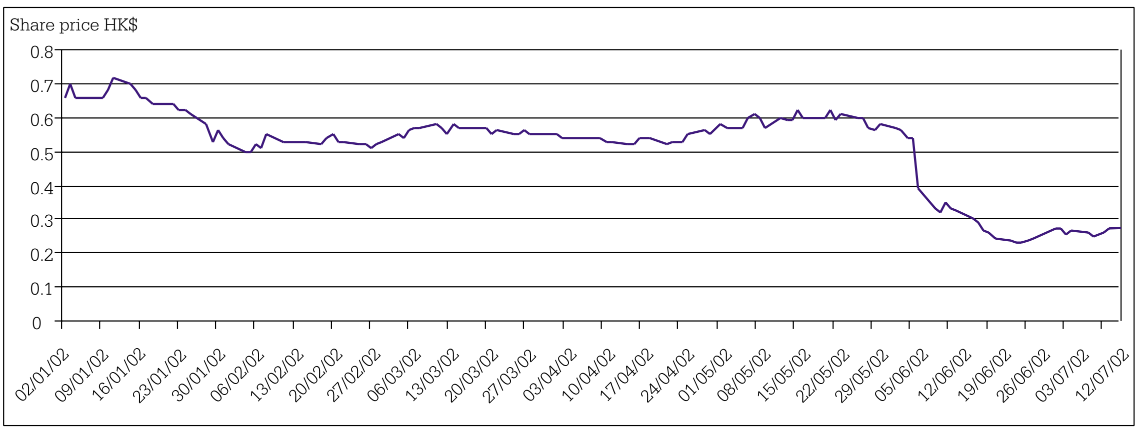
The indebtedness of the Group as at 31st May, 2002 as set out in Appendix I to the Circular amounted to approximately HK$471 million, which is a sharp increase from approximately HK$288 million as shown in the interim accounts as at 30th September, 2001. Such increase is chiefly attributable to the drawdown of the Syndicated Loan. Although cash and bank deposits increased from HK$138.5 million to HK$167.8 million during this period, borrowings, net of cash, approximately doubled from about HK$150 million to just over HK$300 million.

The Syndicated Loan was obtained for the purposes of refinancing an existing HK$85 million facility, improvement in production facilities and general working capital purposes. As the Group has little property in Hong Kong or other tangible collateral suitable for securing a substantial bank loan, the terms of the Syndicated Loan include a number of financial and other covenants which in effect restrict the Group's level of borrowing and use of cash. Such covenants include a maximum ratio of borrowings (net of cash) to consolidated net asset value and a minimum level of consolidated net tangible asset value.

Based on the Company's audited consolidated balance sheet as at 31st March, 2002, we agree with the Board that the Group is operating within the relevant limits of the financial covenants. However, in considering the financing of the expansion of the distribution network, the Board considers it should adopt a prudent view and raise the additional capital needed by way of equity. This will have the effect of increasing the Group's safety margin as regards the financial covenants included in the Syndicated Loan documentation.

6. Recent trading prices and volume of the Shares and effect on the Shareholders

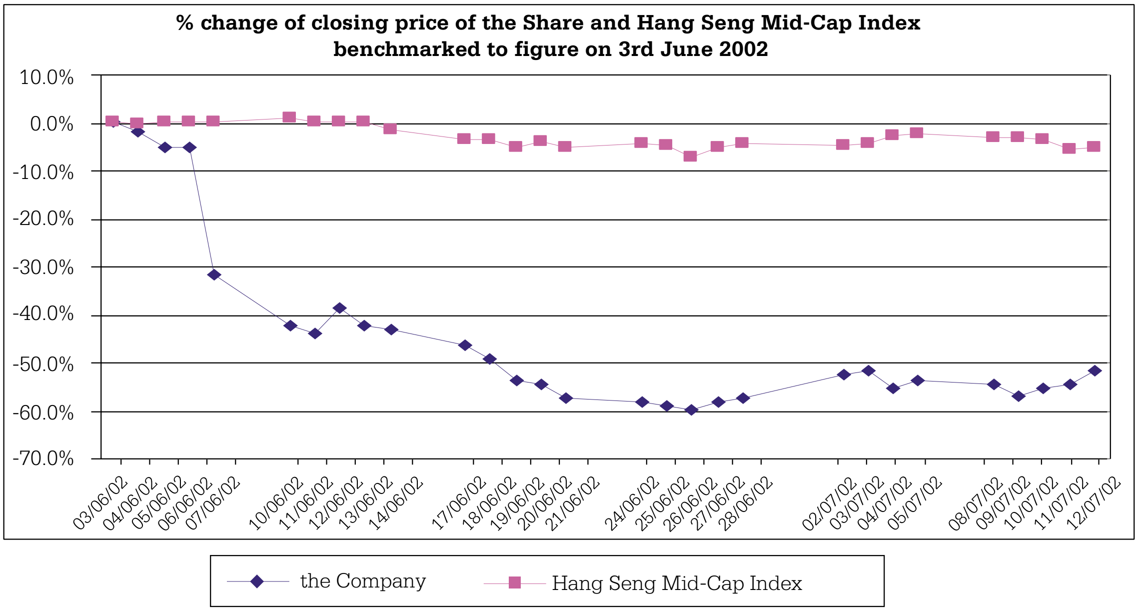
The graph below shows the closing prices of the Share as quoted on the Stock Exchange from 2nd January, 2002 to the Latest Practicable Date:



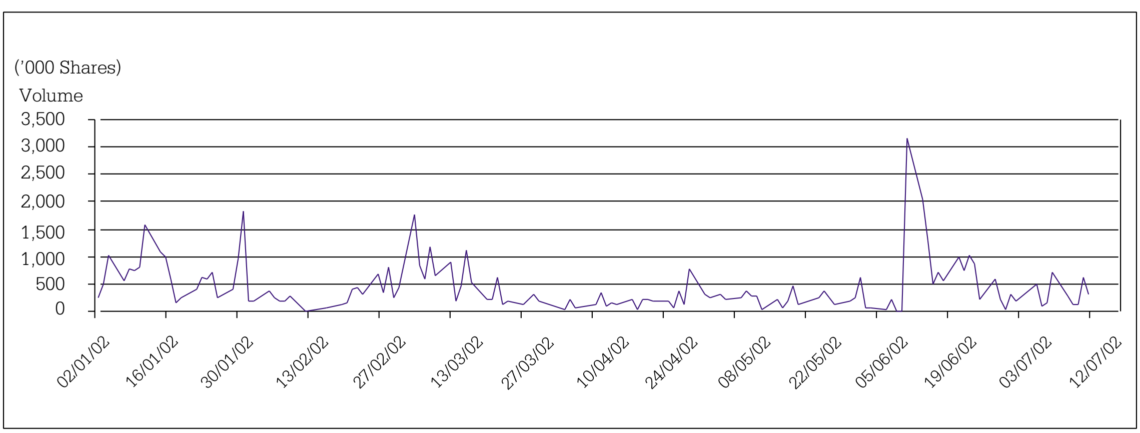
Note: A share consolidation was effected on 25/1/2002 on the basis of 20 the then issued shares be consolidated into one Share. The closing prices of the Share as quoted on the Stock Exchange before 25/1/2002 as shown in the above graph have accordingly been adjusted so as to eliminate the fluctuation and distortion of the trend of the Share price.

During the period under review, the closing prices of the Shares as quoted on the Stock Exchange were within the range from HK$0.72 to HK$ 0.229. During the first five months of this period, the market price was relatively stable but after the Announcement, the Share price fell sharply. The closing price of the Share as quoted on the Stock Exchange dropped from HK$0.54 on 5th June, 2002, the last trading day prior to the Announcement, to HK$0.39 on 7th June, 2002, the first trading day after the Announcement. The Share price dropped further in the ensuing trading days and closed at HK$0.275 on the Latest Practicable Date.

During the period from the 3rd June, 2002 (being the first trading day in June 2002) to the Latest Practicable Date, the closing price of the Share as quoted on the Stock Exchange declined from HK$0.57 to HK$0.275. This represents a decrease of 51.75% during this period. The Hang Seng Midcap Index also fell during the same period by 5.06%, but the drop in Share price was substantially greater, as shown in the graph below, which illustrates the comparison of the percentage change of the closing prices of the Share and the Hang Seng Mid-cap Index during the period from 3rd June, 2002 to the Latest Practicable Date.



The trading volume of the Shares during the period under review is set out below:



Note: A share consolidation was effected on 25/1/2002 on the basis of 20 the then issued shares be consolidated into one Share. The trading volume of the Shares before 25/1/2002 as shown in the above graph has accordingly been adjusted so as to eliminate the fluctuation and distortion of the trend of the trading volume.

As shown in the above graph, the trading volume of the Shares were below one million Shares or 0.5% of the total issued Shares at most of the trading days during the period under review, which we consider "thin" as compared to the total issued Shares. Subsequent to the Announcement, the trading volume surged to slightly above three million Shares on 7th June, 2002, and soon returned to its normal trading volume of below one million Shares.

It is clear from the above analysis that the market has reacted in a very negative way to the Company's decision that it required to raise further equity capital, although trading in the Shares in most of the trading days has been "thin". This reaction has probably been more severe owing to the relatively "heavy" call (two Rights Shares for every existing Share) and the relatively low price of the Rights Issue (HK$0.18 per Share) compared to the closing price range prior to the Announcement of around HK$0.50-HK$0.60. We have discussed this reaction with the Board which has expressed its own concern at the fall in the Share price but nevertheless believes that the need for further equity is fundamental to the Group's growth and will benefit the Group and its Shareholders in the long run.

The decline in the Share price also makes it less attractive for Shareholders to take up their entitlements under the Rights Issue and less feasible for them to sell their rights nil-paid in the market if they do not wish to take them up, which are two justifications for raising finance by way of rights issue. Nevertheless, it remains the case that Shareholders can protect themselves from dilution by taking up their rights entitlements if they have the funds to do so. Shareholders will also be entitled to apply for any Rights Shares not taken up by way of excess application.

7. Terms of the Rights Issue

Compared to market prices

The Rights Issue is on the basis of two Rights Shares for every one existing Share held by the Qualifying Shareholders on the Record Date. The Rights Shares will be issued at a unit price of HK$0.18, which represents:-

(i) a discount of about 40.00% to the theoretical ex-rights price of approximately HK$0.30 per Share based on the closing price per Share as quoted on the Stock Exchange on 5th June, 2002;

(ii) a discount of approximately 34.55% to the closing price of HK$0.275 per Share on the Latest Practicable Date;

(iii) a discount of approximately 14.29% to the theoretical ex-rights of about HK$0.21 per Share based on the closing Share price on the Latest Practicable Date;

(iv) a discount of approximately 82.18% to the adjusted unaudited consolidated net tangible asset value of HK$1.01 per Share after the Rights Issue, as set out in Appendix I to the Circular.

We have reviewed the terms of a total of 18 rights issues carried out by listed issuers on the Stock Exchange since the beginning of 2002 and up to the date of Announcement, disregarding those rights issues with bonus warrants or bonus shares, which are not a feature of the Company's Rights Issue. The associated discounts to the theoretical ex-rights prices based on the closing price of the relevant shares on the dates of announcement of the 18 rights issues ranged from approximately 68.6% to approximately 2.1%, except for one, which was at a premium of approximately 431.9% over the theoretical ex-rights price. On this basis, and bearing in mind the large size of the Rights Issue, we consider that the discount of 40% of the Rights Issue price to the theoretical ex-rights of the Share (based on the closing price per Share on 5th June, 2002) is within the market range.

Compared to net tangible asset value

The estimated financial effect of the Rights Issue on the net tangible asset value of the Group is set out in Appendix I to the Circular, and is summarised as follows:-

	HK$'000
Audited consolidated net tangible asset value as at 31st March, 2002	491,774
Adjusted for:	
Net proceeds from the issue of the Rights Shares	63,000
Adjusted unaudited consolidated net tangible asset value upon completion of the Rights Issue	554,774
Number of issued Shares before the Rights Issue	183,911,150
Number of issued Shares upon completion of the Rights Issue	551,733,450
Audited net tangible asset value per Share before the Rights Issue	HK$2.67
Adjusted unaudited consolidated net tangible asset value per Share based on 551,733,450 Shares in issue upon completion of the Rights Issue	HK$1.01

The Rights Issue price of HK$0.18 per Share represents a discount of approximately 93.26% to the audited consolidated net tangible asset value per Share of HK$2.67 before the Rights Issue and a discount of 82.18% to the adjusted unaudited consolidated net tangible asset value per Share of HK$1.01 after the Rights Issue. The Rights Issue will give rise to a reduction in the consolidated net tangible asset value per Share by approximately 62.17% from HK$2.67 before the Rights Issue to HK$1.01 after completion of the Rights Issue. This reduction is due to the substantial discount of the Rights Issue price to the adjusted unaudited consolidated net tangible asset value per Share before the Rights Issue and the large number of Rights Shares to be issued.

In our opinion, the potential dilution in net tangible asset value per Share is an unfortunate, but inevitable consequence of an issue price set at such a discount to net tangible asset value. However, in a rights issue, the pricing has to be set at a discount to the prevailing market price, otherwise no shareholder will find it worthwhile to subscribe for rights shares. In such circumstances, the most relevant question is whether the rights issue itself is justified.

Price earnings ratio and dividends

The price earnings ratio based on the earnings per Share as at 31st March, 2002 of HK$0.20 and the Share price of HK$0.54 before the Announcement was 2.7 times. Assuming that the Rights Issue is completed and without allowing for any revenue from the proceeds of the Rights Issue, the earnings per Share as at 31st March, 2002 would be diluted to approximately HK$0.07. On this basis and with reference to the Rights price of HK$0.18, the price earnings ratio would be approximately 2.6 times. Based on the theoretical ex-rights price of HK$0.21 calculated with reference to the closing price of the Share of HK$0.275 as quoted on the Stock Exchange on the Latest Practicable Date and the Rights Issue price of HK$0.18 and the diluted earnings per Share of approximately HK$0.07, the price earnings ratio would be approximately 3 times.

The Company has not paid any dividends for each of the three years ended 31st March, 2002 as the Directors have decided to reserve the funds for the Group's development and expansion. Consequently, no dividend yield can be calculated.

Effect on Shareholders

The shareholdings of those Independent Shareholders who take up their entitlements in full under the Rights Issue will not be diluted by the Rights Issue. However, Independent Shareholders who do not take up in full their entitlements under the Rights Issue, depending on the extent to which they take up the Rights Shares, will find their interests in terms of shareholding percentage and attributable net tangible asset value will be diluted severely as a result of the Rights Issue. The dilution in shareholding interests and net tangible asset value per Share for Independent Shareholders who opt not to take up any of their entitlements under the Rights Issue will be 66.67% and 62.17% respectively.

The nil-paid Rights Shares will be traded on the Stock Exchange and Independent Shareholders who do not take up their entitlements in full may have the opportunity to realise their nil-paid Rights Shares in the market, subject to market conditions.

8. Effect on the Group if the Rights Issue was cancelled

The Board envisages that in the event that the Rights Issue is not completed, the Board would have no alternative but to give up its plans for expanding its distribution network for the foreseeable future which is likely to jeopardise the commercial development of the Group. The consequence of giving up the expansion plan could lead to further deterioration in profit margin and reduce Shareholders' long-term return on their investments. A cancellation of the Rights Issue, however, would not put the immediate survival of the Group in doubt.

9. Underwriting and the Whitewash Waiver

Underwriting and its potential effect on shareholdings

As stated in the letter from the Board, the Rights Issue will be underwritten by A-ONE and TIS Securities, an independent third party. A-ONE is an investment holding company which is owned as to 50.45% by Mr. Patrick Chau and as to 49.55% by Mr. Leung Yung. Mr. Patrick Chau and Mr. Leung Yung each own 18,730,416 Shares and 18,391,500 Shares respectively, representing 10.18% and 10.00% of the existing issued share capital of the Company as at the Latest Practicable Date. Mr. Patrick Chau and Mr. Leung Yung have each irrevocably undertaken to the Company and the Underwriters that the Shares beneficially owned by them will remain in their names until the close of business on the Record Date. Mr. Patrick Chau and Mr. Leung Yung have also undertaken that they will take up their entitlements under the Rights Issue in full, amounting in aggregate 74,243,832 Rights Shares.

Assuming that the Underwriters are called upon to take up their underwriting obligations in full, A-ONE, pursuant to the Underwriting Agreement, will be obliged to take up approximately 78.71% of the underwritten Rights Shares representing 231,078,468 Rights Shares. In this circumstance and after taking into account the aggregate entitlements of Mr. Patrick Chau and Mr. Leung Yung under the Rights

Issue and the A-ONE's underwriting commitment in full, the aggregate interest of Mr. Patrick Chau and Mr. Leung Yung in the Company would increase from 20.18% of the existing issued share capital of the Company to 62.06% of the issued share capital of the Company as enlarged by the Rights Issue.

Underwriting fee

It is a market practice in Hong Kong to charge an underwriting commission of 2.0%-2.5% of the issue price of underwritten shares in a rights issue or a placing. A-ONE will charge a 1.5% commission for underwriting the Rights Issue, which compares favourably with the 2.5% charged by TIS Securities, the independent underwriter.

Circumstances of negotiating underwriting

Before approaching TIS Securities, the Company approached two other financial institutions. However, their suggested pricing was lower than the present Rights Issue price of HK$0.18 per Share. After arm's length negotiations, TIS Securities agreed to underwrite an amount of approximately HK$11 million. Given weak market conditions and the difficulty in finding independent underwriters, Mr. Patrick Chau and Mr. Leung Yung agreed to underwrite the remaining portion of approximately 78.71% of the underwritten Rights Shares on the same terms as agreed with TIS Securities.

Whitewash Waiver

Under the terms of the Underwriting Agreement, the two largest Shareholders, Mr. Patrick Chau and Mr. Leung Yung, who are also Chairman and Managing Director of the Company respectively, could see their aggregate holdings increase from 20.18% to a maximum of 62.06%. This is a substantial potential increase which arises from the relatively large size of the Rights Issue (2 Rights Shares for every existing Share) and the fact that A-ONE is the major Underwriter. Further, this potential increase would be achieved at a price of HK$0.18 per Share which represents a price earnings ratio of 2.6 times based on a fully diluted earnings of HK$0.07 per Share after completion of the Rights Issue and a discount to the fully diluted net tangible asset value of 82.18%. This is, in our opinion, an attractive price for the Shares, and for A-ONE and its associates to increase their shareholdings in the Company to the extent of obtaining 30% or more of the enlarged issued Shares in the event they are asked to subscribe for not less than 54,154,287 Rights Shares.

If the fulfillment by A-ONE of its underwriting commitment results in the aggregate interest of A-ONE and its concert parties exceeding 30% of the issued share capital of the Company as enlarged by the Rights Issue, A-ONE and its concert parties would be required under the Takeovers Code to make a mandatory general offer for all the issued Shares other than those already owned by them. A-ONE and its concert parties have made an application to the Executive for a Whitewash Waiver from the obligation to make such an offer pursuant to Note 1 to the Notes on Dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted, would be subject to the approval of the Independent Shareholders by poll at the SGM.

Mr. Patrick Chau is the Chairman and Mr. Leung Yung is the Managing Director of the Company. The aggregate interest of Mr. Patrick Chau and Mr. Leung Yung is 20.18% of the existing issued share capital of the Company. There is no other Shareholder shown in the section "Disclosure of Interest", as set out in Appendix III to the Circular, interested in 10% or more of the existing issued share capital of the Company as at the Latest Practicable Date. Consequently, Mr. Patrick Chau and Mr. Leung Yung are already the largest Shareholders. No change in Board membership is contemplated pursuant to the Rights Issue or the Whitewash Waiver.

Independent Shareholders should note that the taking up of Rights Shares by A-ONE under the Underwriting Agreement may result in A-ONE and its concert parties obtaining the statutory control (i.e. 50% or above) of the Company. According to the Takeovers Code, in the event that A-ONE and its concert parties own 50% or more of the shareholding in the Company, they will not be obliged under Rule 26 to make a mandatory general offer if they further increase their shareholding in the Company. If the A-ONE and its concert parties holding in the range of 30% to 50% after completion of the Rights Issue, they will be subject to the 2% creeper for any 12-month period as set out in the Takeovers Code.

The Rights Issue is conditional, inter alia, on the grant of the Whitewash Waiver. The Whitewash Waiver is subject to the approval of Independent Shareholders by poll at the SGM. As stated in the letter from the Board, none of the parties will waive the Whitewash Waiver and therefore, the Company will not proceed with the Rights Issue in the event that the Whitewash Waiver is not granted by the Executive and approved by the Independent Shareholders at the SGM.

On the above basis, we consider that the grant of the Whitewash Waiver would not be prejudicial to the interests of the Independent Shareholders as we consider the Rights Issue is in the interests of the Company and the purpose of the Whitewash Waiver is to facilitate the Rights Issue. Independent Shareholders can avoid dilution by taking up their respective entitlements in full under the Rights Issue. There will not be any change in the management of the Company as a result of the Rights Issue. The Independent Shareholders should also note that regardless of whether the Whitewash Waiver is granted or not, no offer will be made by A-ONE and its concert parties.

CONCLUSIONS AND RECOMMENDATIONS TO THE INDEPENDENT BOARD COMMITTEE

Based on the above analysis, our main conclusions are as follows:

(1) the commercial strategy of the Group to strengthen its distribution network in response to pressure on its profit margins is a sound one;

(2) the funds raised by the Rights Issue are to be substantially used for this purpose;

(3) the Directors have considered other means of funding such expenditure and have in the last year, for example, negotiated the Syndicated Loan which is fully drawndown. They have also spent substantial amounts in the last two years on fixed assets, licences and buying out minorities, the cumulative effect of which makes an increase in equity capital prudent;

(4) the substantial cash and bank balances now on hand are needed to support the Group's working capital position bearing in mind bank borrowings are largely unsecured and will mature within one or two years;

(5) the effect on Shareholder value of the Announcement has been severe with the Share price falling (on "thin" volume) by about 50% (cum rights) from the HK$0.50-60 range pre-announcement to the closing price of HK$0.275 on the Latest Practicable Date. During the same period, the Hang Seng Midcap Index has also declined, but only by 5.06%. The fall in Share price also means that the market value of the nil-paid rights is likely to be low and Shareholders will receive only a modest amount if they wish to sell their rights in the market nil-paid;

(6) if Independent Shareholders do not approve the Rights Issue:

- the Group's long-term commercial development is likely to be jeopardised but its short-term survival is not in question; and

- the Share price is likely to recover to some extent as the issued share capital of the Company will no longer be tripled at the relatively low price of HK$0.18 per Share. However, the Share price may not return to the HK$0.50-60 range owing to the doubt which the announcement and any subsequent cancellation of the Rights Issue may create in Shareholders and financiers' minds over the strength of the Group's financial position;

(7) the price of the Rights Issue of HK$0.18 per Right Share represents a price earnings ratio, based on earnings per Share of HK$0.07 (on the issued share capital as fully diluted by the Rights Issue and 2001/02 earnings) of approximately 2.6 times. It also represents a discount of 82.18% to fully diluted net tangible assets per Share of HK$1.01. On this basis, we believe the Rights Issue price represents sound fundamental value and should be attractive to Shareholders, although no dividend has been paid in respect of the last three financial years. The Rights Issue mechanism allows all Shareholders to take up their proportionate holdings and we consider that Shareholders should avoid allowing themselves to be diluted at this price;

(8) if Independent Shareholders do allow themselves to be diluted by not taking up their rights entitlements, the two largest Shareholders, Mr. Patrick Chau and Mr. Leung Yung, would increase their shareholdings from 20.18% to, at the maximum 62.06% at a price of HK$0.18 per Share, which we consider is attractive for A-ONE and its associates to increase their shareholding in the Company to the extent of obtaining 30% or more of the enlarged issued share capital of the Company. No change in Board membership is contemplated even if shareholding control changes. Through the Whitewash Waiver, the largest Shareholders would achieve control without making a general offer to all Shareholders; and

(9) the Directors conducted a reasonable level of soundings with potential independent underwriters, bearing in mind the price sensitivity of any rights issue, and we have concluded that the Directors who are also underwriting are doing so primarily to support the Company.

Based on the above conclusions, we consider that the terms of the Rights Issue are, on balance, fair and reasonable and that the Rights Issue price represents sound fundamental value to Shareholders. We therefore advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the Rights Issue with a view to taking up their entitlements under the Rights Issue in full, as it should promote the long-term development of the Group.

Independent Shareholders are reminded that if they do not take up their Rights Issue entitlements, the dilution they will suffer in terms of shareholding percentage and asset value per Share will be severe.

We also advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the Whitewash Waiver to allow the Rights Issue to proceed on the reasons that (i) the Rights Issue is in the interest of the Company and is fair and reasonable to the Independent Shareholders as all of them will be entitled to the Rights Issue; (ii) the Rights Issue is conditional upon the grant of the Whitewash Waiver; (iii) the purpose of the Whitewash Waiver is to facilitate the Rights Issue; and (iv) the interests of the Independent Shareholders will not be prejudiced as no general offer will be made by A-ONE and its concert parties in any event. In the circumstances, we consider the grant of the Whitewash Waiver to be fair and reasonable.

Yours faithfully,
For and on behalf of
SOMERLEY LIMITED
M. N. Sabine
Chairman

SHARE CAPITAL

The authorised and issued (or to be issued under the Rights Issue) share capital of the Company as at the Latest Practicable Date were as follows:

Authorised:		*HK$*
6,000,000,000	Shares	600,000,000
Issued and fully paid:		
183,911,150	Shares	18,391,115
To be issued under the Rights Issue:		
367,822,300	Shares	36,782,230

All the Shares currently in issue rank pari passu in all respects with each other, including dividends, voting rights and capital. No Shares have been issued since 31st March, 2002 (the date to which the latest audited financial statements of the Group were made up) to the Latest Practicable Date.

The Shares are listed on the Stock Exchange and none of the securities of the Company are listed or dealt in on any other stock exchange and no such listing or permission to deal is being or is proposed to be sought.

As at the Latest Practicable Date, the Company had no options, warrants, derivatives or other securities that are convertible into Shares.

FINANCIAL SUMMARY

The following is a summary of the audited financial results of the Group for each of the three financial years ended 31st March:

	2002	2001	2000
	HK$'000	*HK$'000*	*HK$'000*
		(Restated)	
Turnover	931,219	852,379	821,155
Profit before taxation	39,707	28,045	16,338
Taxation	(4,577)	(4,246)	(1,385)
Profit after taxation	35,130	23,799	14,953
Minority interest	1,267	2,000	2,271
Profit attributable to Shareholders	36,397	25,799	17,224
Dividend per Share	–	–	–
Earnings per Share			
Basic (cents)	19.79	14.20	11.51
Diluted	N/A	N/A	N/A

FINANCIAL INFORMATION FOR THE YEAR ENDED 31ST MARCH, 2002

Set out below is the audited financial statements of the Group extracted from the Company's annual report for the year ended 31st March, 2002:

Consolidated income statement

For the year ended 31 March, 2002

	Note	2002 HK$'000	2001 HK$'000 (Restated)
Turnover	*(5)*	931,219	852,379
Cost of sales		(801,344)	(723,596)
Gross profit		129,875	128,783
Other revenue	*(5)*	18,706	16,375
Distribution costs		(23,207)	(21,539)
Administrative expenses		(64,156)	(54,530)
Other operating expenses		(12,247)	(19,224)
Profit from operations	*(6)*	48,971	49,865
Impairment of goodwill	*(2)*	–	(9,159)
Finance costs	*(7)*	(9,264)	(12,661)
Profit before taxation		39,707	28,045
Taxation	*(9)*	(4,577)	(4,246)
Profit after taxation		35,130	23,799
Minority interest		1,267	2,000
Profit attributable to shareholders	*(10)*	36,397	25,799
Earnings per share	*(11)*		
Basic (cents)		19.79	14.20
Diluted		N/A	N/A

Consolidated statement of recognised gains and losses

For the year ended 31 March, 2002

	Note	2002 HK$'000	2001 HK$'000 (Restated)
Net unrealised holding loss of investments in securities	(25)	–	(29,379)
Realisation of unrealised holding loss of investments in securities upon disposal	(25)	17,885	–
Net gain (loss) not recognised in the consolidated income statement		17,885	(29,379)
Net profit for the year as previously reported		36,397	34,958
Effect of changes in accounting policies on adoption of SSAP 30 and SSAP 31		–	(9,159)
Realisation of goodwill on disposal of subsidiary		32,000	–
Total recognised gains (losses)		86,282	(3,580)
Goodwill arising on acquisition of subsidiaries eliminated against reserves		–	(45,264)
Subsequent valuation adjustment to goodwill		–	(7,369)
		86,282	(56,213)

Consolidated balance sheet

As at 31 March, 2002

	Note	2002 HK$'000	2001 HK$'000 (Restated)
Non-current assets			
Fixed assets	(13)	292,942	240,713
Intangible assets	(14)	43,851	7,992
Goodwill	(15)	11,714	–
Investments in securities	(17)	15	22,999
Club debentures		–	1,499
		348,522	273,203
Current assets			
Inventories	(18)	156,058	125,798
Trade and other receivables	(19)	342,888	267,223
Tax recoverable		–	269
Pledged fixed deposits at bank		–	11,625
Cash and bank balances		154,380	97,153
		653,326	502,068
Current liabilities			
Trade and other payables	(20)	28,237	35,511
Syndicated loan	(21)	–	34,000
Other interest-bearing borrowings	(21)	205,597	164,348
Obligations under finance leases	(22)	252	480
Tax payable		2,236	–
		236,322	234,339
Net current assets		417,004	267,729
Total assets less current liabilities		765,526	540,932
Non-current liabilities			
Syndicated loan – Due after one year	(21)	200,000	51,000
Other interest-bearing borrowings – Due after one year	(21)	14,766	6,419
Obligations under finance leases – Due after one year	(22)	25	277
Deferred taxation	(23)	3,396	1,743
		218,187	59,439
Minority interest		–	20,436
Net assets		547,339	461,057
Capital and reserves			
Share capital	(24)	18,391	367,822
Reserves	(25)	528,948	93,235
Shareholders' funds		547,339	461,057

Balance sheet

As at 31 March, 2002

	Note	2002 HK$'000	2001 HK$'000
Non-current assets			
Interests in subsidiaries	(16)	628,672	528,240
Current assets			
Cash and bank balances		183	190
		183	190
Current liabilities			
Accruals and other payables		1,000	233
Syndicated loan	(21)	–	34,000
		1,000	34,233
Net current liabilities		(817)	(34,043)
Total assets less current liabilities		627,855	494,197
Non-current liabilities			
Syndicated loan – Due after one year	(21)	200,000	51,000
Net assets		427,855	443,197
Capital and reserves			
Share capital	(24)	18,391	367,822
Reserves	(25)	409,464	75,375
Shareholders' funds		427,855	443,197

Consolidated cash flow statement

For the year ended 31 March, 2002

	Note	2002 HK$'000	2001 HK$'000 (Restated)
Net cash inflow (outflow) from operating activities	(28)(a)	10,373	(20,466)
Returns on investments and servicing of finance			
Interest received		5,090	3,435
Interest paid on term loans, syndicated loan and bank overdrafts		(9,084)	(12,260)
Finance charges in respect of finance leases		(180)	(401)
Dividend income		–	1,574
Net cash outflow from returns on investments and servicing of finance		(4,174)	(7,652)
Taxation			
Hong Kong profits tax (paid) refunded		(419)	2,871
Tax (paid) refunded		(419)	2,871
Investing activities			
Payments to acquire fixed assets		(83,834)	(120,304)
Proceeds from disposal of fixed assets		202	231
Payments to acquire intangible assets		(39,208)	(34,000)
Proceeds from disposal of intangible assets		–	54,000
Acquisition of a subsidiary	(28)(b)	–	(34,000)
Payments to increase interests in subsidiaries		(31,500)	(12,815)
Purchases of investments in securities		–	(34,453)
Proceeds from disposal of investments in securities		30,046	32,326
Net cash outflow from investing activities		(124,294)	(149,015)
Net cash outflow before financing		(118,514)	(174,262)

	Note	2002 HK$'000	2001 HK$'000 (Restated)
Financing	(28)(c)		
Placement of new shares		–	59,650
Drawdown of term loans		62,574	15,155
Trust receipt loans with maturity over 90 days		33,484	–
Syndicated loan raised		200,000	85,000
Repayments of term loans and other loans		(19,001)	(3,072)
Repayment of syndicated loan		(85,000)	–
Contribution from minority shareholder		–	2,000
Repayments of obligations under finance leases		(480)	(3,421)
Net cash inflow from financing		191,577	155,312
Increase (Decrease) in cash and cash equivalents		73,063	(18,950)
Cash and cash equivalents at the beginning of the year		(42,338)	(23,388)
Cash and cash equivalents at the end of the year	(28)(e)	30,725	(42,338)

Notes to the financial statements

For the year ended 31 March, 2002

(1) General

Peace Mark (Holdings) Limited (the "Company") was incorporated in Bermuda as an exempted company with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. The principal activities of the Company's subsidiaries are set out in note 16 to the financial statements.

(2) Adoption of new and revised Statements of Standard Accounting Practice

In the current year, the Company and its subsidiaries (the "Group") have adopted the following new and revised Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants.

SSAP 9 (Revised)	Events after the balance sheet date
SSAP 14 (Revised)	Leases
SSAP 17 (Revised)	Property, plant and equipment
SSAP 26	Segment reporting
SSAP 28	Provisions, contingent liabilities and contingent assets
SSAP 29	Intangible assets
SSAP 30	Business combinations
SSAP 31	Impairment of assets
SSAP 32	Consolidated financial statements and accounting for investments in subsidiaries

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects of those SSAPs on the Group's accounting policies and on the amounts disclosed in the financial statements are summarised as follows:

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. The disclosure requirements under the SSAP have resulted in changes to the detailed information disclosed for finance leases and operating leases, which are set out in notes 22 and 31(b) respectively.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 4 to the financial statements.

SSAP 29 prescribes the accounting treatment for intangible assets that are not dealt with specifically in another SSAP. This statement requires an enterprise to recognise an intangible asset if, and only if, certain criteria are met. The statement also specifies how to measure the carrying amount of intangible assets and requires certain disclosures about intangible assets. Comparative amounts have been restated in order to achieve a consistent presentation.

SSAP 30 prescribes the accounting treatment for business combination. Goodwill / Negative goodwill arising on acquisition of subsidiaries was previously eliminated against consolidated reserves, and was realised and released to the consolidated income statement upon disposal of such subsidiaries.

Following the adoption of SSAP 30, goodwill is capitalised as an asset and amortised over its estimated useful life of not exceeding 20 years. Negative goodwill is presented in the consolidated balance sheet as a deduction from assets in the same consolidated balance sheet classification as goodwill and recognised as income by reference to any identifiable future losses and expenses and / or the fair values of the identifiable non-monetary assets acquired. The Group has adopted the transitional provision as permitted under SSAP 30. However, any impairment loss in respect of such goodwill is recognised retrospectively in the period when such impairment loss occurred in accordance with the requirements of SSAP 31.

SSAP 31 prescribes the procedures that an enterprise applies to ensure that its assets are carried at no more than their recoverable amounts. SSAP 31 also specifies when an enterprise should reverse an impairment loss and prescribe certain disclosures for impaired assets.

In accordance with the requirements of SSAP 31 and the transitional provisions for SSAP 30, an adjustment has been made concerning the impairment of goodwill arising prior to the adoption of SSAP 30 which was eliminated against available reserves. The adjustment, which represents a change in accounting policy, has been applied retrospectively in accordance with SSAP 2 “Net profit or loss for the period, fundamental errors and changes in accounting policies”. Accordingly, goodwill in the amount of approximately HK$9,159,000 which was impaired in prior periods' retained profits as brought forward at 1 April, 2001 and this also results in a decrease in the Group's profit attributable to shareholders for the year ended 31 March, 2001 of approximately HK$9,159,000.

The adoption of other new and revised SSAPs as outlined above does not have material impact on results reported in the current or prior year, though the terminology used and certain disclosures have been revised in line with the new requirements.

(3) Summary of significant accounting policies

These financial statements have been prepared in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, modified with respect to the measurement of investments in securities and leasehold properties, as further explained in the respective accounting policies below. A summary of the significant accounting policies adopted by the Group is set out below:

(a) Basis of consolidation

The consolidated financial statements of the Group include the financial statements of the Company and its subsidiaries. A subsidiary is a company whose financial and operating policies are under the Company's control, directly or indirectly, so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the period are consolidated from or to their effective dates of acquisition or disposal. The equity and net income attributable to minority shareholders' interests, representing the interests of outside shareholders, are shown separately in the Group's balance sheet and income statement, respectively.

Intragroup balances and transactions and resulting unrealised profits are eliminated in full. Unrealised losses resulting from intragroup transactions are eliminated unless cost cannot be recovered. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

In the Company's financial statements, investments in subsidiaries are carried at cost less any accumulated impairment loss. The results of the subsidiaries are included in the income statement to the extent of dividends received and receivable.

(b) Goodwill

Goodwill arising on acquisition of subsidiaries represents the excess of the cost of acquisition over the Group's interest in the fair values of the identifiable assets and liabilities of the subsidiaries at the date of acquisition. Goodwill is carried at cost less accumulated amortisation and accumulated impairment losses. Goodwill is capitalised and amortised on a straight-line basis over the shorter of its estimated useful life of 20 years. The amortisation charge for each period is recognised as an expense.

Goodwill arising from transactions completed prior to 1 April, 2001 is written off directly against reserves and is reduced by impairment losses. Any impairment loss identified is recognised as an expense.

On disposal of an interest in a subsidiary, the attributable amount of goodwill not previously amortised through the consolidated income statement or which has previously been dealt with as a movement on group reserves is included in the calculation of the profit or loss on disposal.

(c) Negative goodwill

Any excess, as at the date of the transaction, of the Group's interest in the fair values of the identifiable assets and liabilities acquired over the cost of the acquisition, should be recognised as negative goodwill.

Negative goodwill is recognised in the income statement as follows:

(a) to the extent that negative goodwill relates to expected future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, that portion of negative goodwill is recognised as income when the future losses and expenses are recognised.

(b) the amount of negative goodwill not exceeding the fair values of acquired identifiable non-monetary assets is recognised as income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable / amortisable assets.

(c) the amount of negative goodwill in excess of the fair values of acquired identifiable non-monetary assets is recognised as income immediately.

Negative goodwill arising on the acquisition of an associate is deducted from the carrying amount of that associate. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

(d) Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

At subsequent reporting dates, debts securities that the company has the expressed intention and ability to hold to maturity (held-to-maturity securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. Any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as securities for trading purposes and other securities.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss is included in net profit or loss for the period.

(e) Fixed assets and depreciation

Fixed assets are stated at cost or valuation less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of the fixed asset.

Advantage has been taken of the transitional relief provided by paragraph 80 of SSAP 17 (Revised) "Property, plant and equipment" from the requirement to make regular revaluations of the Group's land and buildings which had been carried at revalued amounts prior to 30 September, 1995, and accordingly no further revaluation of land and buildings is carried out. In previous years, surplus arising on the revaluation of these assets was credited to the revaluation reserve. Any future deficit in value of these assets will be dealt with as an expense to the extent that they exceed the balance, if any, on the revaluation reserve relating to a previous revaluation of the same asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

Depreciation is provided to write off the cost or valuation of fixed assets over their estimated useful lives using the straight-line method. The annual rates used are as follows:

Freehold land	Nil
Leasehold land	Over the term of lease
Buildings	2% – 4%
Leasehold improvements	2% – 20%
Other assets	20%

The useful lives of assets and depreciation method are reviewed periodically.

The gain or loss arising on the disposal or retirement of a fixed asset recognised in the income statement is the difference between the net sale proceeds and the carrying amount of the relevant asset.

Properties under construction are stated at cost less accumulated impairment losses. This includes cost of construction, plant and equipment and other direct costs.

Properties under construction are not depreciated until such time as the assets are completed and ready for their intended use.

(f) Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise, and the cost of the asset can be measured reliably.

Subsequent expenditure on an intangible asset after its purchase or its completion is recognised as an expense when it is incurred unless it is probable that the expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and can be measured and attributed to the asset reliably in which case it will be added to the cost of the intangible asset.

After initial recognition, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment loss.

Intangible assets mainly comprise the following:

(i) Technical know-how

The costs of acquiring technical know-how in connection with product development for the licensed products manufactured by the Group are capitalised and amortised on a straight-line basis over the terms of the relevant licences.

(ii) Licences

The cost of licences represents the upfront cost payable and is amortised on a straight-line basis from the date of commencement of its economic use to the end of the terms of the licences.

(iii) Trademark

Trademark is stated at acquisition cost and is amortised on a straight-line basis over its expected future economic life of 20 years.

The amortisation period and the amortisation method are reviewed annually at each financial year end.

(g) Impairment of assets

At each balance sheet date, the Group assesses whether there is any indication that fixed assets, intangible assets and investments in subsidiaries have suffered an impairment loss. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount is the higher of the net selling price and value in use of an asset. The net selling price is the amount that could be obtained from the sale of an asset in an arm's length transaction less the costs of the disposal, while value in use is the present value of estimated future cash flows expected to arise from the use of the asset and from its disposal at the end of its useful life.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at revalued amount, in which case the impairment loss is firstly charged against the related revaluation reserve to the extent of the amount held in the revaluation reserve with any excess recognised as an expense.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, which is restricted to the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the first-in first-out basis, comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(i) Deferred taxation

Deferred taxation is provided under the liability method in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

(j) Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the income statement.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

(k) Provisions and contingencies

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognised are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation.

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

(l) Revenue recognition

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised on the following bases:

(i) Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of goods have been transferred to the customers.

(ii) Rendering of services

Service income is recognised as services are rendered.

(iii) Rental income

Rental income is recognised on a straight-line basis over the respective terms of the leases.

(iv) Interest income

Interest income is recognised on a time proportion basis on the principal outstanding and at the rate applicable.

(v) Sale of investments in securities

Sale proceeds of investments in securities are recognised on a trade-date basis when contracts are executed.

(m) Leases

Finance leases

A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred.

The Group recognises finance leases as assets and liabilities in the balance sheet at amounts equal, at the inception of the lease, to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it can be determined. Otherwise, the Group's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

A finance lease gives rise to depreciation expense for the asset as well as a finance cost for each accounting period. The depreciation policy for leased assets is the same as that for depreciable assets that are owned.

Operating leases

An operating lease is a lease other than a finance lease.

Leases of assets under which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

(n) Off balance sheet financial instruments

Off balance sheet financial instruments arise from swap transactions undertaken by the Group in the interest rate markets.

The accounting for these instruments is dependent upon whether the transactions are undertaken for trading purposes or to hedge risk.

Transactions undertaken for trading purposes are marked to market and the gains or losses arising are recognised in the income statement. Transactions designated as hedges are valued on an equivalent basis to the assets, liabilities or net positions that they are hedging. Any profits or losses are recognised in the income statement on the same basis as those arising from the related assets, liabilities or net positions.

Unrealised gains on transactions which are marked to market are included in "Trade and other receivables" in the balance sheet. Unrealised losses on transactions which are marked to market are included in "Trade and other payables".

(o) Retirement benefits schemes

The Group provides defined contribution plans based on local laws and regulations. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The Group's contributions to defined contribution plans are charged to the income statement in the year to which they relate.

(p) Related parties

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(q) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. Cash equivalents include investments and advances denominated in foreign currencies provided that they fulfill the above criteria.

(r) Segments

A segment is a distinguishable component of the Group that is engaged either in providing products (business segment), or in providing products within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, segment expenses and segment performance include transfers between segments. Such inter-segment pricing is based on similar terms as those available to unaffiliated customers for similar products. Those transfers are eliminated upon consolidation.

Segment capital expenditure represents the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets and liabilities, interest-bearing loans, borrowings and corporate and financing expenses.

(4) Segment information

In accordance with its internal financial reporting policy, the Group has determined that business segments should be presented as primary reporting format. However, business segments are not presented because the Group's turnover and operating profit were contributed solely by manufacture and trading of timepieces products.

Geographical segments are presented as secondary reporting format, segment revenue is based on the final destination of goods sold. There are no sales between the segments.

Segment assets and capital expenditure are based on the geographical location in which the assets are located at the balance sheet date.

2002

	Turnover	**Segment Results**	**Segment Assets**	**Capital Expenditure**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
United States of America	505,282	57,878	108,886	–
Europe	204,726	23,451	78,739	39,208
Asia	221,211	25,339	617,580	83,834
	931,219	106,668	805,205	123,042
Other revenue		18,706		
Unallocated expenses		(76,403)		
Finance costs		(9,264)		
Profit before taxation		39,707		
Unallocated assets			196,643	
Total assets			1,001,848	

2001

	Turnover	**Segment Results**	**Segment Assets**	**Capital Expenditure**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
United States of America	504,608	63,488	67,442	–
Europe	207,980	26,168	27,797	–
Asia	139,791	17,588	385,194	154,304
	852,379	107,244	480,433	154,304
Other revenue		16,375		
Unallocated expenses		(73,754)		
Finance costs		(12,661)		
Impairment of goodwill		(9,159)		
Profit before taxation		28,045		
Unallocated assets			294,838	
Total assets			775,271	

(5) Turnover and Other revenue

(a) Turnover

Turnover represents the amounts received and receivable for goods sold, less discounts and returns, by the Group to outside customers during the year.

(b) Other revenue

	2002	2001
	HK$'000	*HK$'000*
Rental income	1,252	872
Interest income	5,090	3,435
Dividend income from investments in securities	–	1,574
Handling service income	5,791	–
Gain on disposal of intangible assets	–	7,400
Gain on disposal of fixed assets	37	–
Exchange gain	2,917	1,346
Sundry income	3,619	1,748
	18,706	16,375

(6) Profit from operations

	2002	2001
	HK$'000	*HK$'000*
		(Restated)
Profit from operations has been arrived at after charging the following:		
Depreciation		
– Owned assets	29,060	20,942
– Assets under finance leases	2,380	2,381
Amortisation of intangible assets	3,344	10,845
Amortisation of goodwill	617	–
Impairment of goodwill	–	9,159
Loss on disposal of investments in securities	10,823	6,674
Loss on disposal of fixed assets	–	52
Staff costs, including directors' emoluments	40,877	33,222
Write-off of current assets	6,640	10,866

(7) Finance costs

	2002	2001
	HK$'000	*HK$'000*
Interest on:		
Term loans, syndicated loan and bank overdrafts wholly repayable within five years	9,084	12,260
Obligations under finance leases	180	401
	9,264	12,661

(8) Directors' and employees' emoluments

Particulars of the Directors' and the five highest paid employees' emoluments are as follows:

(a) Directors' emoluments

	2002	2001
	HK$'000	*HK$'000*
Directors' fees:		
– Executive	–	–
– Non-executive	190	150
	190	150
Other emoluments (Executive Directors):		
Salaries and other benefits	3,744	4,170
Pension scheme contributions	156	198
	3,900	4,368
	4,090	4,518

The emoluments of the Directors are within the following bands:

	2002 Number of Directors	2001 Number of Directors
Nil to HK$1,000,000	10	10
HK$1,000,001 to HK$1,500,000	1	–
	11	10

(b) Employees' emoluments

During the year ended 31 March, 2002, the five highest paid individuals included four Directors (for the year ended 31 March, 2001, the five highest paid individuals included three Directors) details of whose emoluments are set out in note 8(a) to the financial statements above. The emoluments of the remaining individual for the year are as follows:

	2002	**2001**
	HK$'000	*HK$'000*
Salaries and other benefits	650	919
Pension scheme contributions	12	38
	662	957

The emoluments of this individual are in the range of Nil to HK$1,000,000.

(9) Taxation

Taxation in the consolidated income statement represents:

	2002	**2001**
	HK$'000	*HK$'000*
Hong Kong Profits Tax		
Current year	2,868	2,526
Underprovision in prior year	56	–
Deferred taxation	1,653	1,720
	4,577	4,246

Hong Kong Profits Tax is calculated at the prevailing rate of 16% (2001: 16%) on the estimated assessable profits for the year.

Details of deferred taxation are set out in note 23 to the financial statements.

(10) Profit attributable to shareholders

Of the Group's profit attributable to shareholders, a loss of HK$15,342,000 (2001: HK$1,781,000) has been dealt with in the financial statements of the Company.

(11) Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

	2002	2001 *(Restated)*
(a) *Basic earnings per share*		
Profit attributable to shareholders (in HK$'000)	36,397	25,799
Weighted average number of shares (in '000)	183,911	181,705
Basic earnings per share (cents)	19.79	14.20
(b) *Diluted earnings per share*		
Profit attributable to shareholders (in HK$'000)	36,397	25,799
Weighted average number of shares (in '000)	183,911	181,705
Potential dilutive shares (in '000)	–	–
Adjusted weighted average number (in '000)	183,911	181,705
Diluted earnings per share	N/A	N/A

(12) Related party and connected transactions

On 28 August, 2001, EganaGoldpfeil has reached an agreement with United Success Enterprises Limited ("United Success"), a company wholly owned by Mr. Leung Yung, for the sale of 367,830,000 shares (or equivalently 18,391,500 shares after the share consolidation on 25 January, 2002 whereby every 20 issued shares were consolidated into 1 consolidated share) of par value of HK$0.10 each which represents approximately 10% of the share capital of the Company at a consideration of HK$49,800,000.

Upon completion of the sale of said shares in the issued share capital of the Company by EganaGoldpfeil to United Success, the shareholding held by EganaGoldpfeil and its associates (as defined in the Listing Rules) in the Company was decreased from approximately 16.5% to approximately 6.5%. Thereafter, that is effective from 28 August, 2001, EganaGoldpfeil ceased to be a connected party to the Company under the Listing Rules and the trading transactions between the Group and EganaGoldpfeil do not constitute connected transactions of the Group.

Pursuant to SSAP 20, parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. After the sale of the shares by EganaGoldpfeil to United Success, EganaGoldpfeil was ceased to be related party to the Company, also on 28 August, 2001.

In February 2000, a conditional waiver from strict compliance with the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") in respect of the trading transactions has been granted by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for three financial years of the Company starting from the year commencing 1 April, 2000.

During the year, the Group had the following material transactions with its related parties as defined in note 3:

		2002	**2001**
	Note	*HK$'000*	*HK$'000*
Sale of goods to EganaGoldpfeil and its subsidiaries	*(i)*	6,462	20,056
Purchase of raw materials from EganaGoldpfeil and its subsidiaries	*(i)*	48	3,104
Rental income from a subsidiary of EganaGoldpfeil	*(ii)*	347	833

Notes:

(i) *Sale and purchase transactions with EganaGoldpfeil and its subsidiaries were in relation to timepiece related transactions and were effected on normal commercial terms.*

(ii) *The rental income is in relation to the letting of the factory premises of the Group in the PRC for the production activities of EganaGoldpfeil's leather business. The rental income was negotiated at arm's length.*

(13) Fixed assets

	The Group						
	Properties under construction	Freehold and leasehold properties	Leasehold improvements	Furniture, fixtures and equipment	Plant and machinery	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation							
As at 1 April, 2001	26,312	106,164	65,255	14,329	90,155	4,814	307,029
Additions	9,265	5,352	2,525	2,069	64,356	267	83,834
Disposals	–	–	–	(166)	(176)	(90)	(432)
As at 31 March, 2002	35,577	111,516	67,780	16,232	154,335	4,991	390,431
Comprising							
At valuation	–	14,000	–	–	–	–	14,000
At cost	35,577	97,516	67,780	16,232	154,335	4,991	376,431
	35,577	111,516	67,780	16,232	154,335	4,991	390,431
Depreciation							
As at 1 April, 2001	–	6,952	11,386	10,025	35,506	2,447	66,316
Provided for the year	–	2,284	6,023	1,951	20,233	949	31,440
Eliminated on disposals	–	–	–	(47)	(130)	(90)	(267)
As at 31 March, 2002	–	9,236	17,409	11,929	55,609	3,306	97,489
Net book value							
As at 31 March, 2002	35,577	102,280	50,371	4,303	98,726	1,685	292,942
As at 31 March, 2001	26,312	99,212	53,869	4,304	54,649	2,367	240,713

One of the leasehold properties of the Group was revalued as at 31 March, 1995, on an open market value basis by Messrs. Jones Lang Wootton Limited, independent registered surveyors.

As at 31 March, 2002, had the leasehold properties of the Group been carried at historical cost less accumulated depreciation, their carrying value would have been approximately HK$93,723,000 (2001: HK$90,321,000).

The net book value of the leasehold properties includes an amount of approximately HK$43,267,000 (2001: HK$43,893,000) in respect of an industrial waste management system implemented in an electroplating factory of the Group.

The carrying value of properties held by the Group comprises:

	The Group 2002	2001
	HK$'000	*HK$'000*
Leasehold properties:		
Held in Hong Kong, medium-term lease	16,343	16,675
Held in the People's Republic of China, medium-term lease	83,902	82,537
Freehold properties:		
Held outside Hong Kong	2,035	–
	102,280	99,212

As at 31 March, 2002, the net book value of the Group's fixed assets held under finance leases was approximately HK$776,000 (2001: HK$1,259,000).

(14) Intangible assets

During the year, the Group acquired a trademark, the market value of which was valued at approximately HK$48,500,000 by Sallmanns (Far East) Limited, an independent valuer.

	The Group 2002				2001
	Technical know-how	Licence	Trademark	Total	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost					
As at 1 April, 2001	7,145	15,000	–	22,145	54,745
Addition	–	–	39,208	39,208	34,000
Disposal	(5)	–	–	(5)	(66,600)
As at 31 March, 2002	7,140	15,000	39,208	61,348	22,145
Amortisation					
As at 1 April, 2001	4,814	9,339	–	14,153	23,308
Provided for the year	846	2,498	–	3,344	10,845
Eliminated on disposal	–	–	–	–	(20,000)
As at 31 March, 2002	5,660	11,837	–	17,497	14,153
Net book value					
As at 31 March, 2002	1,480	3,163	39,208	43,851	7,992
As at 31 March, 2001	2,331	5,661	–	7,992	31,437

(15) Goodwill

During the year, SSAP 30 was adopted as detailed in note 2 to the financial statements. The amount of the goodwill arising on the acquisition of subsidiaries is as follows:

	The Group	
	2002	**2001**
	HK$'000	*HK$'000*
Cost		
As at 1 April, 2001	–	–
Acquisition of subsidiaries	12,331	–
As at 31 March, 2002	12,331	–
Amortisation		
As at 1 April, 2001	–	–
Provided for the year	617	–
As at 31 March, 2002	617	–
Net book value		
As at 31 March, 2002	11,714	–
As at 31 March, 2001	–	–

As detailed in note 2 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits goodwill in respect of acquisitions which occurred prior to 1 January, 2001 to remain eliminated against consolidated reserves.

(16) Interests in subsidiaries

	The Company	
	2002	**2001**
	HK$'000	*HK$'000*
Unlisted shares, at cost	51,398	51,398
Amount due from subsidiaries	577,275	476,843
Amount due to a subsidiary	(1)	(1)
	628,672	528,240

The balances with subsidiaries are unsecured, interest-free and not repayable within the next twelve months.

As at 31 March, 2002, the underlying value of interests in subsidiaries is, in the opinion of the Directors, not less than the carrying value in the books of the Company.

Details of the Company's principal subsidiaries at 31 March, 2002 are as follows:

Name of subsidiary	Place of incorporation / registration	Issued and fully paid capital / registered capital	Percentage of equity interest held by the Company		Principal activities
			Direct %	Indirect %	
Capricon Company Limited	British Virgin Islands	US$100 Ordinary	–	100	Investment holding
Capricon Industrial (Shenzhen) Co., Ltd.	The People's Republic of China	HK$10,849,000	–	100	Property investment
Fulltop Limited	British Virgin Islands	US$1 Ordinary	–	100	Trademark and property holding
Gar Shun Enterprises Development Limited	Hong Kong	HK$400,000 Ordinary	–	51	Electroplating
Inter Mark Worldwide Limited	Hong Kong	HK$100 Ordinary	–	100	Timepiece distribution
Peace Mark (B.V.I.) Limited	British Virgin Islands	HK$10,000 Ordinary	100	–	Investment holding
Peace Mark Limited	Hong Kong	HK$100 Ordinary HK$10,000 Non-voting deferred*	–	100	Timepiece trading and marketing
Peace Mark (Switzerland) Enterprises Limited	British Virgin Islands	US$1 Ordinary	–	100	Provision of after sales service and timepiece components
PM Company Limited	British Virgin Islands	HK$1 Ordinary	–	100	Subcontracting
Pure Riches Industries Limited	Hong Kong	HK$2,760,000 Ordinary	–	100	Manufacturing of timepiece components

Name of subsidiary	Place of incorporation / registration	Issued and fully paid capital / registered capital	Percentage of equity interest held by the Company		Principal activities
			Direct %	Indirect %	
Sky Type Limited	Hong Kong	HK$10,000 Ordinary	–	100	Asset holding
Vico Industries Limited	Hong Kong	HK$100 Ordinary	–	100	Manufacturing of timepiece components
World Grade Industries Limited	Hong Kong	HK$10,000 Ordinary	–	100	Property investment

* The deferred shares, which are not held by the Group, practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the subsidiary or to participate in any distribution on winding up.

The above table listed the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

All subsidiaries operate in their respective places of incorporation / registration except for that Capricon Company Limited, Gar Shun Enterprises Development Limited, Pure Riches Industries Limited and Vico Industries Limited operate in the People's Republic of China and that Fulltop Limited operates in Switzerland.

None of the subsidiaries had any loan capital outstanding at the year end, nor at any time during the year.

(17) Investments in securities

	The Group	
	2002	**2001**
	HK$'000	*HK$'000*
Equity securities:		
Listed in Hong Kong, at cost	37	40,906
Unrealised holding loss	(22)	(17,907)
At market value	15	22,999

(18) Inventories

	The Group	
	2002	**2001**
	HK$'000	*HK$'000*
Raw materials	7,720	44,713
Work-in-progress	16,053	33,342
Finished goods	132,285	47,743
	156,058	125,798

As at 31 March, 2002 and 2001, all inventories were stated at cost.

(19) Trade and other receivables

The Group has extended an average credit period of 90-120 days to its trade customers. Included in trade and other receivables are debtors (net of provisions for bad and doubtful debts) with the following ageing analysis:

	The Group	
	2002	**2001**
	HK$'000	*HK$'000*
Trade receivables:		
0 – 90 days	113,400	101,004
91 days – 180 days	9,964	12,918
Over 180 days	4,424	–
	127,788	113,922
Trade deposits	70,077	42,000
Other deposits, prepayments and other receivables	145,023	111,301
	342,888	267,223

(20) Trade and other payables

Included in trade and other payables are creditors with the following ageing analysis:

	The Group	
	2002	**2001**
	HK$'000	*HK$'000*
Trade payables:		
0 – 90 days	9,231	19,342
91 days – 180 days	3,324	4,536
Over 180 days	8,424	–
	20,979	23,878
Accruals and other payables	7,258	11,633
	28,237	35,511

(21) Syndicated loan and other interest-bearing borrowings

	The Group	
	2002	**2001**
	HK$'000	*HK$'000*
Syndicated loan and other interest-bearing borrowings comprise:		
– Term loans	63,224	19,651
– Syndicated loan, unsecured	200,000	85,000
– Trust receipt and import loans	156,758	146,267
– Bank overdrafts	381	4,849
	420,363	255,767
Analysed as:		
– Secured	–	6,240
– Unsecured	420,363	249,527
	420,363	255,767
The syndicated loan and other interest-bearing borrowings are repayable as follows:		
– Not exceeding one year or upon demand	205,597	198,348
– More than one year, but not exceeding two years	125,302	36,357
– More than two years, but not exceeding five years	89,464	21,062
	420,363	255,767
Less: Amount shown under current liabilities		
– Syndicated loan	–	(34,000)
– Other interest-bearing borrowings	(205,597)	(164,348)
	214,766	57,419
Analysed as:		
– Syndicated loan	200,000	51,000
– Other interest-bearing borrowings	14,766	6,419
	214,766	57,419

	The Company 2002 HK$'000	The Company 2001 HK$'000
Syndicated loan and other interest-bearing borrowings comprise:		
– Syndicated loan, unsecured	200,000	85,000
The syndicated loan and other interest-bearing borrowings are repayable as follows:		
– Not exceeding one year or upon demand	–	34,000
– More than one year, but not exceeding two years	114,286	34,000
– More than two years, but not exceeding five years	85,714	17,000
	200,000	85,000
Less: Amount shown under current liabilities		
–Syndicated loan	–	(34,000)
	200,000	51,000

(22) Obligations under finance leases

As at 31 March, 2002, the Group had obligations under finance leases repayable as follows:

	The Group 2002 HK$'000	The Group 2001 HK$'000
Within one year	298	562
More than one year, but not exceeding two years	24	298
More than two years, but not exceeding five years	10	34
	332	894
Less: finance charges	(55)	(137)
	277	757
Representing finance lease obligations:		
Current portion	252	480
Non-current portion	25	277
	277	757

(23) Deferred taxation

	The Group	
	2002	**2001**
	HK$'000	*HK$'000*
As at 1 April, 2001	1,743	23
Provided for the year	1,653	1,720
As at 31 March, 2002	3,396	1,743

As at the balance sheet date, the major components of the provision for deferred taxation are as follows:

	Liability provided		Net potential liabilities (assets) unrecognised	
	2002	**2001**	**2002**	**2001**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Tax effect of timing differences attributable to:				
Excess of depreciation allowances over depreciation charged in the financial statements	3,442	1,789	3,687	1,019
Revaluation deficit on the Group's investment properties situated in the People's Republic of China	(46)	(46)	–	–
Tax losses	–	–	(4,306)	(3,133)
	3,396	1,743	(619)	(2,114)

Deferred tax has not been provided on the revaluation surplus arising on the valuation of properties in Hong Kong as profits arising on the disposal of these assets would not be subject to taxation. Accordingly, the revaluation surplus does not constitute a timing difference for tax purposes.

(24) Share capital

	Number of shares	Par value	Amount
		HK$	*HK$'000*
Authorised:			
As at 1 April, 2001 and 31 March, 2002	6,000,000,000	0.10	600,000
Issued and fully paid:			
As at 1 April, 2001	3,678,223,019	0.10	367,822
Capital Reduction whereby the nominal value of the shares was reduced to HK$0.005 each by cancellation of HK$0.095 paid-up capital for each issued share	–	(0.095)	(349,431)
	3,678,223,019	0.005	18,391
Capital Consolidation whereby every 20 new issued shares with nominal value of HK$0.005 each in the capital of the Company following the Capital Reduction was consolidated into 1 consolidated share	(3,494,311,869)	0.095	–
As at 31 March, 2002	183,911,150	0.10	18,391

Pursuant to a special resolution passed on 24 January, 2002, the shareholders approved a capital reorganisation ("Capital Reorganisation") involving, among others, a reduction ("Capital Reduction") and consolidation ("Share Consolidation") of the issued share capital. The Capital Reorganisation has become effective on 25 January, 2002.

Pursuant to the Capital Reorganisation:

1. the paid-up capital and nominal value of all the issued shares were reduced from HK$0.10 to HK$0.005 each by cancellation of HK$0.095 paid up capital on each issued share;

2. every 20 issued new shares were consolidated into 1 consolidated share; and

3. the credit of HK$349,431,187 arising from the Capital Reduction on the basis of 3,678,223,019 shares in issue transferred to the contributed surplus account of the Company, which may be used in future for such purposes as the Board may direct subject to the Companies Act and Bye-laws.

Before the Capital Reduction, the authorised share capital of the Company was HK$600,000,000 divided into 6,000,000,000 shares of which HK$367,822,302 divided into 3,678,223,019 shares were issued and credited as fully paid. Immediately upon the Capital Reorganisation becoming effective and on the basis that 3,678,223,019 shares were issued immediately prior to the Capital Reduction becoming effective, the authorised share capital of the Company was HK$600,000,000 divided into 6,000,000,000 consolidated shares of which HK$18,391,115 divided into 183,911,150 consolidated shares were issued and credited as fully paid, and a credit of HK$349,431,187 arising from the Capital Reorganisation was transferred to the contributed surplus account of the Company as mentioned above. The Share Consolidation stipulated that every 20 issued new shares were consolidated into 1 consolidated share.

(25) Reserves

The Group

	Share premium	Merger deficit	Capital reserve (Goodwill)	Contributed surplus	Leasehold property revaluation reserve	Other reserve	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 April, 2000	43,255	(11,988)	23,846	–	5,466	11,472	68,238	140,289
Subsequent valuation adjustment to goodwill	–	–	(7,369)	–	–	–	–	(7,369)
Goodwill arising on acquisition of subsidiaries eliminated	–	–	(45,264)	–	–	–	–	(45,264)
Net unrealised holding loss of investments in securities	–	–	–	–	–	(29,379)	–	(29,379)
Profit for the year	–	–	–	–	–	–	34,958	34,958
As at 31 March, 2001 as previously reported	43,255	(11,988)	(28,787)	–	5,466	(17,907)	103,196	93,235
Effect of changes in accounting policies on adoption of SSAP 30 and SSAP 31	–	–	9,159	–	–	–	(9,159)	–
As at 31 March, 2001 as restated	43,255	(11,988)	(19,628)	–	5,466	(17,907)	94,037	93,235
Realisation of goodwill on disposal of subsidiary	–	–	32,000	–	–	–	–	32,000
Realisation of unrealised holding loss of investments in securities upon disposal	–	–	–	–	–	17,885	–	17,885
Credit arising on Capital Reduction	–	–	–	349,431	–	–	–	349,431
Profit for the year	–	–	–	–	–	–	36,397	36,397
As at 31 March, 2002	43,255	(11,988)	12,372	349,431	5,466	(22)	130,434	528,948

The Company

	Share premium	Merger deficit	Capital reserve (Goodwill)	Contributed surplus	Leasehold property revaluation reserve	Other reserve	Accumu-lated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 April, 2000	43,255	–	–	39,399	–	–	(5,498)	77,156
Loss for the year	–	–	–	–	–	–	(1,781)	(1,781)
As at 31 March, 2001	43,255	–	–	39,399	–	–	(7,279)	75,375
Credit arising on Capital Reduction	–	–	–	349,431	–	–	–	349,431
Loss for the year	–	–	–	–	–	–	(15,342)	(15,342)
As at 31 March, 2002	43,255	–	–	388,830	–	–	(22,621)	409,464

The capital reserve (goodwill) represents the total of the share premium of a subsidiary prior to becoming a member of the Group in a merger and the amount arising from the excess or shortfall of the purchase consideration over the fair value of the Group's share of the separable net assets of the subsidiaries acquired.

The merger deficit represents the excess of the nominal value of the shares in the Company issued as consideration over the nominal value of the subsidiaries' shares transferred to the Company.

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of the subsidiaries acquired by the Company and the nominal amount of the Company's shares issued for the acquisition.

The other reserve represents the amount of unrealised holding gain (loss) from the investments in securities.

Under the Companies Act 1981 of Bermuda, the contributed surplus of the Company is available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if there are reasonable grounds for believing that:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the Directors, the Company's reserves available for distribution to shareholders were as follows:

	2002	2001
	HK$'000	*HK$'000*
Contributed surplus	388,830	39,399
Accumulated losses	(22,621)	(7,279)
	366,209	32,120

(26) Share option schemes

On 24 January, 2002, the share option scheme adopted by the Company on 15 January, 1993 (the "Old Share Option Scheme") was terminated and a replacing share option scheme (the "New Share Option Scheme") was adopted by the shareholders of the Company on the same date to comply with the new amendments to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") regarding the share option schemes of a company. As a result, the Company may no longer grant any further options under the Old Share Option Scheme. Out of all the share options to subscribe for 149,300,000 shares in the Company granted to certain directors and employees on 8 October, 1999 under the Old Share Option Scheme which are exercisable from 8 April, 2000 to 7 April, 2003 at an exercise price of HK$0.10 per share, share options to subscribe for 20,000,000 shares in the Company were lapsed on 27 November, 2001 due to, on 28 August, 2001, the resignations of Mr. Lee Ka Yue, Peter and Mr. Law Shik Chuen who are Executive Directors of the Company before the resignations. The remaining share options to subscribe for 129,300,000 shares in the Company were cancelled, and hence lapsed, on 29 November, 2002. No options have been granted under the New Share Option Scheme since the date of its adoption.

The purpose of the New Share Option Scheme is to advance the interests of the Company and its shareholders by providing to:

(i) the directors and employees of the Group with a performance incentive to reward them for their continued and improved services with the Group and to further encourage them by offering them an opportunity to obtain an ownership in the Company; and

(ii) the eligible persons (other than the directors and employees of the Group) with an incentive through ownership in the Company in order to motivate them to optimise their performance and efficiency for the benefit of the Group and / or to attract, retain or otherwise maintain their on-going business relationships with the Group which are or will be beneficial to the Group's success.

Eligible persons of the New Share Option Scheme include

(i) any director of the Group;

(ii) any employee (whether part time or full time) of the Group;

(iii) any consultant or professional adviser who, at the offer date ("Offer Date") of the grant of an option or options and during the option period ("Option Period"), which means a period to be notified by the board of directors ("Board") to each grantee of the option or options which the Board may in its absolute discretion determine save that such period of time shall not exceed a period of 10 years commencing on the commencement date of the option or options, in respect of any options granted to such consultant or professional adviser, is mandated by the Group for the provision of services;

(iv) any supplier or customer of the Group who, during the six-month period immediately prior to the offer date and any such time during the Option Period in respect of any options granted to such supplier or customer, has entered into business transactions with the Group the aggregate value of all of which shall have exceeded HK$10,000,000; and

(v) any person who, at the Offer Date and during the Option Period in respect of any options granted to such person, is appointed by the Group as an authorised agent of the Group.

The New Share Option Scheme became effective on 24 January, 2002 and unless otherwise terminated by the Company or the Directors, it shall be valid and effective for 10 years commencing on the adoption date on 24 January, 2002. After such period no further share options will be granted but in all other respects the provisions of the 2002 Scheme shall remain in full force and effect.

Pursuant to the New Share Option Scheme, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Share Option Scheme and any other share option schemes of the Company must not, in aggregate, exceed 30 percent of the shares of the Company in issue from time to time. No options may be granted under the New Share Option Scheme if such grant would result in the above 30 percent limit being exceeded. The total number of shares available from issue under the options which may be granted under the New Share Option Schemes and any other share options schemes of the Company must not, in aggregate, exceed 10 percent of the issued share capital of the Company as at the date of approval of the New Share Option Scheme by the shareholders of the Company on 24 January, 2002 unless shareholders' approval has been obtained.

Subject to the terms of the New Share Option Scheme and the requirements of the Listing Rules, the Board shall be entitled at any time, within 10 years after the adoption date on 24 January, New Share Option of the New Share Option Scheme to make an offer of the grant of an option or options to any eligible person as the Board may in its absolute discretion select to subscribe for such number of shares as the Board may determine at the subscription price.

The subscription price shall be a price determined by the Board and notified to an eligible person and shall be the higher of the closing price of the share of the Company as stated in the daily quotation sheets issued by the Stock Exchange of Hong Kong Limited on the Offer Date, which must be a business day; and the average closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange of Hong Kong Limited for the five business days immediately preceding the offer date.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee.

A summary of the movements of share options granted under the above schemes is as follows:

	New Share Option Scheme	**Old Share Option Scheme**
As at 1 April, 2001	–	149,300,000
Cancelled during the year	–	(129,300,000)
Lapsed during the year	–	(20,000,000)
As at 31 March, 2002	–	–

(27) Retirement benefits schemes

The Group operates both a defined contribution pension scheme (the "Scheme") and a defined contribution Mandatory Provident Fund (the "MPF") since 1 December, 2000 for all eligible employees including Directors of the Company. The assets of the schemes are held separately from those of the Group in funds under the control of trustees.

The cost charged to the income statement represents contributions payable to the Scheme (2002: HK$810,000; 2001: HK$606,000) and the MPF (2002: HK$186,000; 2001: HK$16,000) by the Group at rates specified in the rules of the schemes. Where there are employees who leave the schemes prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

During the year, contributions of approximately HK$73,000 (2001: nil) were forfeited which are available to reduce the contributions payable in the future years.

(28) Notes to the consolidated cash flow statement

(a) Reconciliation of profit before taxation to net cash inflow (outflow) from operating activities

	2002	2001
	HK$'000	*HK$'000*
Profit before taxation	39,707	28,045
Interest income	(5,090)	(3,435)
Interest expenses on bank loans, syndicated loan and bank overdrafts	9,084	12,260
Finance charges in respect of finance leases	180	401
Dividend income	–	(1,574)
Impairment of goodwill	–	9,159
Amortisation of goodwill	617	–
Loss (Gain) on disposal of intangible assets	5	(7,400)
Depreciation of fixed assets	31,440	23,323
Amortisation of intangible assets	3,344	10,845
Loss on disposal of investment securities	10,823	6,674
(Gain) Loss on disposals of fixed assets	(37)	52
Loss on disposal of club debenture	1,499	–
Increase in inventories	(30,260)	(2,253)
Increase in trade and other receivables	(43,665)	(90,742)
Decrease in trade and other payables	(7,274)	(5,821)
Net cash inflow (outflow) from operating activities	10,373	(20,466)

(b) Acquisition of a subsidiary

	2002	2001
	HK$'000	*HK$'000*
Net assets of the subsidiary acquired	–	–
Goodwill arising on consolidation	–	34,000
Satisfied by:		
Cash consideration paid	–	34,000

Analysis of net outflow of cash and cash equivalents in respect of the acquisition of the subsidiary:

	2002 HK$'000	2001 HK$'000
Cash consideration paid	–	(34,000)
Net outflow of cash and cash equivalents in respect of the acquisition of the subsidiary	–	(34,000)

(c) Analysis of changes in financing during the year

	Share capital and share premium HK$'000	Interest-bearing borrowings HK$'000	Obligations under finance leases HK$'000	Minority interest HK$'000
As at 1 April, 2000	351,427	7,568	4,178	21,987
Drawdown of term loans raised	–	15,155	–	–
Repayment of obligations under finance leases	–	–	(3,421)	–
Placement of new shares	59,650	–	–	–
Acquisition of initial interests in subsidiary	–	–	–	1,960
Acquisition of further interests in subsidiary	–	–	–	(1,511)
Syndicated loan raised	–	85,000	–	–
Repayment of term loans and other loans	–	(3,072)	–	–
Share of loss for the year	–	–	–	(2,000)
As at 31 March, 2001	411,077	104,651	757	20,436
Drawdown of term loans	–	62,574	–	–
Repayment of obligations under finance leases	–	–	(480)	–
Credit arising on Capital Reduction	(349,431)	–	–	–
Trust receipt loans with maturity over 90 days	–	33,484	–	–
Syndicated loan raised	–	200,000	–	–
Repayment of syndicated loan	–	(85,000)	–	–
Repayment of term loans and other loans	–	(19,001)	–	–
Share of loss for the year	–	–	–	(1,267)
Acquisition of further interests in subsidiaries	–	–	–	(19,169)
As at 31 March, 2002	61,646	296,708	277	–

(d) Disposal of a subsidiary

	2002	2001
	HK$'000	*HK$'000*
Net assets disposed of:	–	–

	2002	2001
	HK$'000	*HK$'000*
Satisfied by:		
Other receivables	34,000	–
Analysis of the net inflow of cash and cash equivalents in respect of the disposal of the subsidiary:		
Cash received	–	–

During the year, the Group disposed of a subsidiary (the "Disposal") with a patent registered in Japan in connection with a technology for downloading Internet data for personal computers to wrist watches through infra-red communication (the "Technology") for HK$34,000,000. The Disposal enabled the Group to recoup additional cash resources for better business opportunities. The market value of the Technology was HK$32,000,000 as valued by Sallmanns (Far East) Ltd., an independent valuer.

The subsidiary disposed of during the year made no significant contribution to the Group in respect of the cash flows, turnover and contribution to the consolidated profit for the year.

This represents the Group's only major non-cash transaction during the year.

(e) Analysis of the balances of cash and cash equivalents

	2002	2001
	HK$'000	*HK$'000*
Cash and bank balances	154,380	97,153
Pledged fixed deposit at bank	–	11,625
Trust receipt loans	(123,274)	(146,267)
Bank overdrafts	(381)	(4,849)
Cash and cash equivalents at the end of the year	30,725	(42,338)

(29) Contingent liabilities

As at 31 March, 2002, the Group had contingent liabilities in respect of bills discounted with recourse amounting to approximately HK$179,740,000 (2001: HK$165,210,000).

The Company has given corporate guarantees to banks in respect of general banking facilities granted to subsidiaries amounting to HK$816,000,000 (2001: HK$584,900,000). The extent of such facilities utilised by the subsidiaries as at 31 March, 2002 amounted to approximately HK$195,000,000 (2001: HK$151,000,000).

(30) Financial instruments

The Company had entered into interest rate swaps to manage its interest rate risk. As at 31 March, 2002, the total notional amount of such instruments was HK$201,000,000. The notional amounts of the outstanding interest rate swaps indicate the contract size outstanding at the balance sheet date and do not represent the amount at risk.

The Company had entered into currency-linked deposit contracts to manage its foreign currency risk. As at 31 March, 2002, the total US dollar based currency-linked deposits were amounted to US$2,200,000. The alternative currency of those contracts is Euro currency.

(31) Capital and lease commitments

(a) Capital commitments outstanding as at 31 March, 2002 not provided for in the financial statements are as follows:

	The Group	
	2002	**2001**
	HK$'000	*HK$'000*
Contracted for	628	5,557

(b) As at 31 March, 2002, the total future minimum lease payments under non-cancellable operating leases in respect of leasehold land and buildings are payable as follows:

	The Group	
	2002	**2001**
	HK$'000	*HK$'000*
		(Restated)
– Within 1 year	935	932
– After 1 year but within 5 years	3,707	3,715
– After 5 years	5,746	6,672
	10,388	11,319

(32) Pledge of assets

As at 31 March, 2002, no assets of the Group were pledged.

As at 31 March, 2001, fixed bank deposits of HK$11,625,000 and leasehold properties with carrying value of HK$16,729,000 had been pledged to secure banking facilities for a subsidiary in the PRC and mortgage loans respectively.

(33) Subsequent events

On 6 June, 2002, the Directors announced that the Company proposed to issue, by way of rights, 367,822,300 rights shares at HK$0.18 each ("Rights Issue"). The Company will provisionally allot two right shares in nil-paid form for every one existing share held by the qualifying shareholders on the record date. The Rights Issue is not available to the overseas shareholders.

The net proceeds of the Rights Issue are expected to be about HK$63 million, about HK$24 million of which is intended to be used for establishing a distribution arm in the United States, about HK$10 million of which will be used for promoting the Group's licensed products through the distribution arm aforementioned, about HK$20 million of which will be used for developing its distribution network in the PRC and the remaining balance will be used as its general working capital.

The Rights Issue is conditional upon certain events as described in the announcement.

STATEMENT OF ADJUSTED UNAUDITED CONSOLIDATED NET TANGIBLE ASSET VALUE OF THE GROUP

The following is a statement of the adjusted unaudited consolidated net tangible asset value of the Group, based on the audited net tangible asset value of the Group as at 31st March, 2002 and adjusted as follows:

	Total amount	**Per Share**
	HK$'000	*HK$*
Audited consolidated net tangible assets as at 31st March, 2002	491,774	2.67*
Adjusted for:		
Net proceeds from the issue of the Rights Shares	63,000	
Adjusted unaudited consolidated net tangible asset value of the Group	554,774	1.01**

Notes:

* on the basis of 183,911,150 Shares in issue as at the Latest Practicable Date.

** on the basis of 551,733,450 Shares in issue upon completion of the Rights Issue.

STATEMENT OF INDEBTEDNESS

Borrowings

As at the close of business on 31st May, 2002, being the latest practicable date for the purpose of this indebtedness statement, the Group had outstanding borrowings of approximately HK$470,952,000, which comprised of secured bank loan of approximately HK$30,000,000, unsecured bank loans and other borrowings of approximately HK$440,603,000 and obligations under finance leases of approximately HK$349,000.

Debt securities

As at 31st May, 2002, the Group had no debt securities.

Securities and guarantees

As at the close of business on 31st May, 2002, the Group's borrowings were secured by certain of the Group's leasehold properties and corporate guarantees given by the Company.

Contingent liabilities

As at 31st May, 2002, the Group had contingent liabilities in respect of normal trade bills discounted with recourse of approximately HK$174,821,000.

Disclaimer

Save as aforesaid and apart from intra-group liabilities, the Group did not have, at the close of business on 31st May, 2002, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, obligations under finance leases, guarantees, or other material contingent liabilities.

Foreign currency amounts have been translated into Hong Kong dollars at the relevant rates of exchange prevailing at the close of business on 31st May, 2002.

The Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Group since 31st May, 2002 and up to the Latest Practicable Date.

WORKING CAPITAL

The Directors are of the opinion that after taking into account of the Group's present available borrowing facilities and the internal resources of the Group, and in the absence of unforseeable circumstances, the Group has sufficient working capital for its present requirement other than the expansion plan as stated in the paragraph headed "Reasons for and use of proceeds of the Rights Issue" in the Letter from the Board in this circular.

MATERIAL CHANGES

Save as disclosed in the audited results of the Group for the year ended 31st March, 2002 and the information set out under the paragraph headed "Reasons for and use of proceeds of the Rights Issue" and paragraph headed "Statement of Indebtedness", the Directors are not aware of any material change in the financial or trading position of the Group since 31st March, 2002, the date to which the latest published financial statements of the Group were made up.

The following is the text of a letter, a summary of values and a valuation certificate, prepared for the purpose of incorporation in this circular, received from Sallmanns (Far East) Limited, an independent property valuer, in connection with its valuation as at 31st May, 2002 of the property interests held by the Group.

Sallmanns

CHARTERED SURVEYORS, PROPERTY CONSULTANTS
LAND, BUILDING, PLANT & MACHINERY VALUERS
FINANCIAL AND INTANGIBLE ASSET VALUERS

15/F Trinity House
165-171 Wanchai Road
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Tel : (852) 2169 6000
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16th July, 2002

The Directors
Peace Mark (Holdings) Limited
Room 1203
Cheung Fung Industrial Building
Nos. 23-39 Pak Tin Par Street
Tsuen Wan
Hong Kong

Dear Sirs,

In accordance with the instructions to value the property interests in which Peace Mark (Holdings) Limited (hereinafter referred to as the "Company") and its subsidiaries (hereinafter together referred to as the "Group") have interests in Hong Kong, Switzerland and the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the open / fair market value of such property interests as at 31st May, 2002 for circular purposes.

BASIS OF VALUATION

Our valuations of the property interests in Groups I, III, IV and property interest no. 4 in Group II are our opinion of their open market value which we would define as intended to mean our opinion of "the best price at which the sale of an interest in a property would have been completed unconditionally for cash consideration on the date of the valuation assuming:–

(a) a willing seller;

(b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;

(c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;

(d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and

(e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion."

For the property interest no. 3 in Group II, our valuations are our opinion of the property's fair market value which is defined as the estimated amount at which the subject asset in its continued use might be expected to be purchased and sold between a willing buyer and a willing seller, neither being under compulsion, each having a reasonable knowledge of all relevant facts, with equity to both, for continuation of the current operation of the relevant property interest as part of an on-going business.

VALUATION METHODOLOGY

In valuing the property interests in Groups I and III and property interest no. 4 in Group II, we have valued each of these property interests on an open market basis by the Direct Comparison Method assuming sale in existing state with the benefit of vacant possession by reference to comparable sales transactions as available in the relevant market. This approach rests on the wide acceptance of market price as the best indicator of value and pre-supposes that evidence of recent transactions in the market place can be extrapolated to similar property interests, subject to allowances for variable factors.

In valuing the property interest no. 3 in Group II, where due to the buildings and structures for the property interest have been constructed and designed as a whole industrial complex for the purpose of the Group's watch manufacturing business and there are no market sales comparable. Therefore, the property interest has been valued on the basis of its depreciated replacement cost. Depreciated replacement cost is defined as "the aggregate amount of the value of the land for the existing use or a notional replacement site in the same locality, and the gross replacement cost of the buildings and other site works, from which appropriate deductions may then be made to allow for the age, condition, economic or functional obsolescence and environmental factors etc; all of these might result in the existing property being worth less to the undertaking in occupation than would a new replacement." This opinion of value does not necessarily represent the amount that might be realised from the disposal of the subject asset in the open market, and this basis has been used due to the lack of an established market upon which to base comparable transactions. However, this approach generally furnishes the most reliable indication of value for assets without a known used market.

In valuing the property interests in Group IV which are leased by the Group have no commercial value due mainly to the short term nature or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rents.

TITLE INVESTIGATION

For the property interests in Hong Kong and Switzerland, we have been provided with various documents relating to the property interests which are held by the Group and have caused searches to be made at the relevant Land Registries. However, we have not searched the original documents to verify ownership or to ascertain the existence of any amendments which may not appear on the copies handed to us.

For the property interests in the PRC, we have been shown copies of various documents and official plan relating to the property interests which are held and rented by the Group. However, we have not searched the original documents to verify ownership or to verify any lease amendments which may not appear on the copies handed to us. Due to the nature of the land registration system in the PRC, we are unable to search the original documents to verify the existing title of the property interests or any material encumbrances that might be attached to the property interests.

VALUATION CONSIDERATIONS

Our valuations have been made on the assumption that the property interests can be sold in the open market without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to affect the values of the property interests.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the relevant property interests but have assumed that the site areas shown on the documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas in the valuation certificates are based on information contained in the documents provided to us by the Group and are therefore only approximations.

We have inspected the exterior and wherever possible, the interior of the property interests included in the attached valuation certificates, in respect of which we have been provided with such information as we have required for the purpose of our valuations. However, no structural survey has been made, but in the course of our inspections we did not note any apparent serious defects. We are not, however, able to report that the property interests are free from rot, infestation or any other structural defects. No tests were carried out to any of the services.

We have relied to a considerable extent on the information provided to us by the Group and have accepted advice on such matters as planning approvals, statutory notices, easements, tenures, completion dates of buildings, particulars of occupancy, lettings, floor areas and all other relevant matters in the identification of the property interests.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also been advised by the Group that no material factors have been omitted from the information to reach an informed view, and have no reason to suspect that any material information has been withheld.

No allowance has been made in our report for any charges, mortgages or amounts owing on any of the property interests valued nor for any expenses or taxation which may be incurred in affecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

REMARKS

Unless otherwise stated, all monetary amounts stated in this report are in Hong Kong Dollars. The exchange rate used in converting the values of the property interests in Groups II and III in Renminbi and Swiss Francs (CHF) into Hong Kong Dollars, being RMB1.059=HK$1 and CHF4.931 = HK$1 respectively and no significant fluctuation in such exchange rates have been found between the valuation date and the date of this letter.

Our valuations are summarised below and valuation certificates are attached herewith.

Yours faithfully,
for and on behalf of
Sallmanns (Far East) Limited
Paul L. Brown
BSc FRICS FHKIS
Director

Note: Paul L. Brown is a Chartered Surveyor who has 19 years of experience in the valuation of properties in the PRC, and 22 years of property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.

SUMMARY OF VALUES

GROUP I – PROPERTY INTERESTS OWNED AND OCCUPIED BY THE GROUP IN HONG KONG

	Property	Open market value in existing state as at 31st May, 2002
		HK$
1.	Unit 3 together with air conditioning plant room on 7th Floor of High Block of Cheung Fung Industrial Building Nos. 23-39 Pak Tin Par Street Tsuen Wan New Territories	3,300,000
2.	Unit 3 together with air conditioning plant room on 12th Floor and a car parking space no. P5 on 1st Floor of High Block of Cheung Fung Industrial Building Nos. 23-39 Pak Tin Par Street Tsuen Wan New Territories	3,500,000
	Sub-total:	**6,800,000**

GROUP II – PROPERTY INTERESTS OWNED AND OCCUPIED BY THE GROUP IN THE PRC

	Property	Open/Fair market value in existing state as at 31st May, 2002
		HK$
3.	Lands, various buildings and structures located at Heba Industrial Area Feng Huang Gang Village Xi Xiang Town Bao An District Shenzhen The PRC	65,900,000
4.	Units A001, A019 and A125 on Level 1 Wang Jiao Horological Plaza No. 1 Bai Xing Street West Road of Guangzhou City Station Guangzhou City Guangdong Province The PRC	2,900,000
	Sub-total:	**68,800,000**

GROUP III – PROPERTY INTEREST OWNED AND OCCUPIED BY THE GROUP IN SWITZERLAND

5.	19 Reuchenettestrasse 2502 Bienne Switzerland	2,220,000
	Sub-total:	**2,220,000**

GROUP IV – PROPERTY INTERESTS RENTED AND OCCUPIED BY THE GROUP IN THE PRC

	Property	Open market value in existing state as at 31st May, 2002
		HK$
6.	Block No. 3 Feng Huang Gang Industrial Area Xi Xiang Town Bao An District Shenzhen The PRC	No commercial value
7.	Block No. A07 Feng Huang Gang Industrial Area Xi Xiang Town Bao An District Shenzhen The PRC	No commercial value
8.	Factory Building and Dormitory Building located at No. 3 Industrial District of Bi Tou Village Dong Zong Town Shenzhen The PRC	No commercial value
	Sub-total:	**Nil**
	Total:	**77,820,000**

VALUATION CERTIFICATE

Group I – Property interests owned and occupied by the Group in Hong Kong

	Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 31st May, 2002 *HK$*
1.	Unit 3 together with air conditioning plant room on 7th Floor of High Block of Cheung Fung Industrial Building Nos. 23-39 Pak Tin Par Street Tsuen Wan New Territories 10044/905336 shares of and in the Remaining Portion of Tsuen Wan Town Lot No. 313	The property comprises an industrial unit on 7th floor of a 21-storey industrial building completed in about 1989. The unit (exclude the air conditioning plant room) has a gross floor area of approximately 8,262 sq.ft.. The property is held under a New Grant No. 6589 for a term of 99 years less the last three days thereof from 1st July, 1898, which term had been extended until 30th June, 2047 under section 6 of the New Territories Leases (Extension) Ordinance 1988.	The property is currently occupied by the Group for industrial and ancillary office purposes.	3,300,000

Notes:

(i) The registered owner of the property is World Grade Industries Limited a wholly-owned subsidiary of the Company vide memorial no. 824865 dated 14th March, 1992.

(ii) The property is subject to an Occupation Permit No. NT172/89 vide memorial no. 605004 dated 23rd August, 1989.

(iii) The property is subject to a Deed of Mutual Covenant vide memorial no. 653006 dated 12th March, 1990.

(iv) The property is also subject to a Mortgage to Secure General Credit Facilities in favour of Orix International Finance Limited vide memorial no. 1463886 dated 21st May, 2002.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 31st May, 2002 *HK$*
2.	Unit 3 together with air conditioning plant room on 12th Floor and a car parking space no. P5 on 1st Floor of High Block of Cheung Fung Industrial Building Nos. 23-39 Pak Tin Par Street Tsuen Wan New Territories 10171/905336 shares of and in the Remaining Portion of Tsuen Wan Town Lot No. 313	The property comprises an industrial unit on 12th floor and a car parking space on 1st floor of a 21-storey industrial building completed in about 1989. The unit (exclude the air conditioning plant room) has a gross floor area of approximately 8,262 sq.ft.. The property is held under a New Grant No. 6589 for a term of 99 years less the last three days thereof from 1st July, 1898, which term had been extended until 30th June, 2047 under section 6 of the New Territories Leases (Extension) Ordinance 1988.	The property is currently occupied by the Group for industrial, ancillary office and car parking purposes.	3,500,000

Notes:

(i) The registered owner of the property is World Grade Industries Limited, a wholly-owned subsidiary of the Company, vide memorial no. 679300 dated 5th June, 1990.

(ii) The property is subject to an Occupation Permit No. NT172/89 vide memorial no. 605004 dated 23rd August, 1989.

(iii) The property is subject to a Deed of Mutual Covenant vide memorial no. 653006 dated 12th March, 1990.

(iv) The property is also subject to a Mortgage to Secure General Credit Facilities in favour of Orix International Finance Limited vide memorial no. 1463886 dated 21st May, 2002.

VALUATION CERTIFICATE

Group II – Property interests owned and occupied by the Group in the PRC

	Property	Description and tenure	Particulars of occupancy	Fair market value in existing state as at 31st May, 2002 *HK$*
3.	Lands, various buildings and structures located at Heba Industrial Area Feng Huang Gang Village Xi Xiang Town Bao An District Shenzhen The PRC	The property comprises three parcels of land (Land Nos. A112-0108, A112-0109 and A112-0024) with a total site area of approximately 18,532.2 sq.m. in which 16 buildings and some ancillary structures are erected and completed in various stages from 1990 to 2002. The major buildings include a main factory building, a worker's dormitory, a senior staff dormitory, an administration block, a maintenance work block, a canteen, guard rooms, etc. The 16 buildings have a total gross floor area of approximately 27,313.06 sq.m.. The land use rights of the land have been granted for a term of 50 years.	The property is currently occupied by the Group for production and ancillary office purposes.	65,900,000

Notes:

(i) Pursuant to the Contract of Grant of State-owned Land Use Rights, Shen Di He Zi No. (1997) 4-98 dated 14th August, 1997, issued by Land Administration Bureau of Shenzhen City, the land use rights of the land (Land No. A112-0023) with a site area of approximately 13,308.2 sq.m. was agreed to be granted to Capricon Industrial (Shenzhen) Co., Ltd, a wholly-owned subsidiary of the Company, for a term of 50 years commencing from 8th November, 1991 to 7th November, 2041 for industrial uses.

(ii) Pursuant to 深圳市寶安區歷史用地遺留問題竣工項目處理決定, Di No. 684 dated 14th August, 1997, issued by 深圳市寶安區歷史用地遺留問題辦公室, the land (Land No. A112-0024) with a site area of approximately 5,223.8 sq.m. was agreed to be used by Capricon Industrial (Shenzhen) Co., Ltd. for a term of 50 years commencing from 8th November, 1991 to 7th November, 2041 for industrial uses.

(iii) Pursuant to a Real Estate Title Certificate, Shen Fang Di Zheng Di No. 5000009146 dated 4th December, 1998, issued by the People's Government of Shenzhen City, the land use rights of the land (Land No. A112-0109) with a site area of 4,983.6 is held by Capricon Industrial (Shenzhen) Co., Ltd. for a term of 50 years commencing from 8th November, 1991 to 7th November, 2041 for industrial uses.

(iv) Pursuant to 6 Real Estate Title Certificates, Shen Fang Di Zheng Di Nos. 5000009587, 5000009588, 5000009589, 5000009590, 5000009591 and 5000009592 dated 10 December, 1998, issued by the People's Government of Shenzhen City, the main factory building with a total gross floor area of approximately 13,998.80 are erected on the land (Land No. A112-0108) with a site area of approximately 8,324.80 sq.m.. The main factory building is held by Capricon Industrial (Shenzhen) Co., Ltd. for a term of 50 years commencing from 8th November, 1991 to 7th November, 2041 for industrial uses.

(v) Pursuant to 6 Real Estate Title Certificates, Shen Fang Di Zheng Di Nos. 5000003924, 5000003925, 5000003926, 5000003927, 5000003928 and 5000003929 dated 13th October, 1998, issued by the People's Government of Shenzhen City, the worker's dormitory block with a total gross floor area of approximately 8,748.50 are erected on the land (Land No. A112-0024) with a site area of approximately 5,223.8 sq.m.. The worker's dormitory block is held by Capricon Industrial (Shenzhen) Co., Ltd. for a term of 50 years commencing from 8th November, 1991 to 7th November, 2041 for industrial uses.

(vi) We have been provided with a legal opinion on the title to the property interests by the Group's PRC legal adviser, which contains, inter alia, the following information:

a. the land use rights of the land vested in Capricon Industrial (Shenzhen) Co. Ltd. and can be freely transferrable, let and mortgaged without any limitation;

b. the property is not subject to mortgage or any other encumbrances; and

c. the property is subject to stamp duty of 0.05% based on property price and land capital gain tax is in the range of 30% to 60% based on the assessment by a property appraisal firm when it is transferred.

(vii) As advised by the Company, there is no intention to transfer the property interest in the near future so there is unlikely any such tax liability.

(viii) In the valuation of this property, we have not attributed any commercial value to 13 buildings with a total gross floor area of approximately 2,285.76 sq.m. which have not obtained any proper title certificates. However, for reference purposes, we are of the opinion that the depreciated replacement cost of the 13 buildings as at the date of valuation is HK$1,500,000.

(ix) In the valuation of this property, we have not attributed any commercial value to the senior staff dormitory with a gross floor area of approximately 2,280 sq.m. which is currently under construction. However, as provided by the Company and according to the accounting record of the Company, the construction costs incurred as at the date of valuation is approximately HK$35,577,000.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 31st May, 2002 *HK$*
4.	Units A001, A019 and A125 on Level 1 Wang Jiao Horological Plaza No. 1 Bai Xing Street West Road of Guangzhou City Station Guangzhou City Guangdong Province The PRC	The property comprises three retail units on Level 1 of a 7-storey composite building completed in about 2002. The property has a total gross floor area of approximately 139.40 sq.m.	The property is currently occupied by the Group for retail purposes.	2,900,000

Notes:

(i) According to three Sale and Purchase Agreements, the three units with a total gross floor area of approximately 139.40 sq.m. are purchased by Capricon Industrial (Shenzhen) Co., Ltd., a wholly-owned subsidiary of the Company.

(ii) We have been provided with a legal opinion on the title to the property interests by the Group's PRC legal advisor, which contains, inter alia, the following information:

a. the title of the three units are vested in Capricon Industrial (Shenzhen) Co. Ltd. for a term of 40 years commencing from 16th February, 2000 to 15th February, 2040 and the amount of the purchase price has been fully paid;

b. the proper title certificates are currently under application by the Company;

c. the Company is entitled to transfer, let and mortgage the three units after the proper title certificates have been obtained; and

d. the property is subject to stamp duty of 0.05% based on property price and land capital gain tax is in the range of 30% to 60% based on the assessment by a property appraisal firm when it is transferred.

(iv) As advised by the Company, there is no intention to transfer the property interest in the near future so there is unlikely any such tax liability.

VALUATION CERTIFICATE

Group III – Property interests owned and occupied by the Group in Switzerland

	Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 31st May, 2002 *HK$*
5.	19 Reuchenettestrasse 2502 Bienne Switzerland	The property comprises a 3-storey composite building completed in about 1963. The property has a net lettable area of approximately 466.9 sq.m.	The property is currently occupied by the Group for office and workshop purposes.	2,220,000

Note:

(i) The registered owner of the property is Fulltop Limited, a wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

Group IV – Property interests rented and occupied by the Group in the PRC

	Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 31st May, 2002 *HK$*
6.	Block No. 3 Feng Huang Gang Industrial Area Xi Xiang Town Bao An District Shenzhen The PRC	The property comprises the whole block of a 3-storey industrial building completed in about 1990. The property has a gross floor area of approximately 2,680 sq.m. The property is rented to Pure Riches Industries Limited from an independent third party for a period from 1st January, 2000 to 28th June, 2005 and all rental payments have been fully paid by Peace Mark Limited.	The property is currently occupied by the Group for industrial purposes.	No commercial value

Note:

(i) Pure Riches Industries Limited and Peace Mark Limited are wholly-owned subsidiaries of the Company.

(ii) We have been provided with a legal opinion on the title to the property interests by the Group's PRC legal advisor, which contains, inter alia, the following information:

a. the Tenancy Agreement is lawful and enforceable.

(iii) In the valuation of this leased property, we have not attributed any commercial value to the building. However, as provided by the Company and according to the accounting record of the Company, the carrying amounts of total improvement costs to the building as at the date of valuation is approximately HK$2,765,000.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 31st May, 2002 *HK$*
7.	Block No. A07 Feng Huang Gang Industrial Area Xi Xiang Town Bao An District Shenzhen The PRC	The property comprises the whole block of a 3-storey industrial building completed in about 1990. The property has a gross floor area of approximately 2,680 sq.m. The property is rented to Vico Industries Limited from an independent third party for a period commencing from 1st March, 1999 to 30th March, 2009 at a monthly rental of RMB26,800 up to 31st March, 2006 and at a monthly rental of RMB32,160 commencing from 1st April, 2007 to the end of the lease.	The property is currently occupied by the Group for industrial purposes.	No commercial value

Note:

(i) Vico Industries Limited is a wholly-owned subsidiary of the Company.

(ii) We have been provided with a legal opinion on the title to the property interests by the Group's PRC legal advisor, which contains, inter alia, the following information:

a. the Tenancy Agreement is lawful and enforceable.

(iii) In the valuation of this leased property, we have not attributed any commercial value to the building. However, as provided by the Company and according to the accounting record of the Company, the carrying amounts of total improvement costs to the building as at the date of valuation is approximately HK$6,610,000.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 31st May, 2002 *HK$*
8.	Factory Building and Dormitory Building located at No. 3 Industrial District of Bi Tou Village Dong Zong Town Shenzhen The PRC	The property comprises a 3-storey factory building and a 5-storey dormitory building completed in about 2000. The property has a total gross floor area of approximately 5,600 sq.m. The property is rented to Gar Shun Enterprises Development Limited from an independent third party for a term of 15 years commencing from 1st March, 2001 to 30th March, 2016. The annual rental of the factory building and dormitory building is RMB10 and RMB9 per sq. m. respectively.	The property is currently occupied by the Group for industrial purposes.	No commercial value

Note:

(i) Gar Shun Enterprises Development Limited is a subsidiary of the Company.

(ii) Gar Shun Enterprises Development Limited has to pay an annual land use compensation fee of RMB3 per sq.m. for the parcel of land with a site area of approximately 6,015 sq.m. in which the 2 buildings are erected.

(iii) We have been provided with a legal opinion on the title to the property interests by the Group's PRC legal advisor, which contains, inter alia, the following information:

a. the Tenancy Agreement is lawful and enforceable.

(iv) In the valuation of this leased property, we have not attributed any commercial value to the 2 buildings. However, as provided by the Company and according to the accounting record of the Company, the carrying amounts of total improvement costs to the 2 buildings as at the date of valuation is approximately HK$8,811,000.

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Takeovers Code and the Listing Rules for the purpose of giving information with regard to the Company. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular, and confirm having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement herein misleading.

DISCLOSURE OF INTERESTS

(a) Interests in the Company/associated corporations

As at the Latest Practicable Date, the interests of the Directors and chief executive of the Company and their associated corporations in the Shares within the meaning of the SDI Ordinance which have been notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which they are deemed or taken to have under section 31 of, or Part I of the Schedule to, the SDI Ordinance) or which are required pursuant to section 29 of the SDI Ordinance to be entered in the register referred to therein, or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, were as follows:

	Personal interests	**Family interests**	**Corporate interests**	**Total**	**Approximate percentage of shareholding**
	Number of Shares	*Number of Shares*	*Number of Shares*	*Number of Shares*	*%*
Chau Cham Wong, Patrick	18,730,416	–	–	18,730,416	10.18%
Leung Yung *(Note)*	–	–	18,391,500	18,391,500	10.00%

Note: Mr. Leung Yung is deemed to be interested in 18,391,500 Shares held by United Success by virtue of his interests in United Success. Mr. Leung Yung is the beneficiary owner of the entire interests of United Success.

Save for Mr. Leung Yung, who is deemed to subscribe for the Rights Shares through United Success, Mr. Patrick Chau and Mr. Leung Yung indicated that they will subscribe for the Rights Shares to which they are entitled pursuant to their respective interests in the Company as stated above.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor chief executive of the Company had, or was taken or deemed to have under section 28 of the SDI Ordinance or under section 31 of, or Part I of the Schedule to, the SDI Ordinance, any interests in the Shares or share options of the Company or any of its associated corporations, within the meaning of the SDI Ordinance which is required to be notified, or which is required to be entered in the register kept by the Company pursuant to section 29 of the SDI Ordinance or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules.

(b) Substantial shareholders

Save as disclosed above, so far as was known to any Director, there was no person (other than the Director or chief executive of the Company and their associates whose interests are set out in the section "Disclosure of Interests") who, as at the Latest Practicable Date, was directly or indirectly interested in 10% or more of the issued share capital or of any options in respect of such capital of the Company.

(c) Interests in A-ONE

As at the Latest Practicable Date, the Group did not have any interests in the share capital of A-ONE.

As at the Latest Practicable Date, Mr. Patrick Chau and Mr. Leung Yung were interested in 50.45% and 49.55% respectively in the issued share capital of A-ONE. Save for that, none of the Directors have any beneficial interests in the share capital of A-ONE.

(d) Dealings in securities of the Company

Save for the entering into the Underwriting Agreement by A-ONE, none of the Directors, the directors of A-ONE, A-ONE and parties acting in concert with any of them have any dealings in the securities of the Company during the period starting six months prior to 6th June, 2002, being the date of the Announcement, and thereafter up to the date ended on the Latest Practicable Date.

(e) Service contracts

As at the Latest Practicable Date, none of the Directors had any existing nor proposed service contract with any member of the Group, save for contracts expiring or terminable by the employer within one year without payment of compensation, other than statutory compensation.

There are no service contracts entered into, commenced, or amended in the past six months.

(f) Miscellaneous

(i) No person who has an arrangement of the kind referred to in note 8 to rule 22 of the Takeovers Code with the Company, any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associates under the Takeovers Code, Mr. Patrick Chau, Mr. Leung Yung, A-ONE or any person acting in concert with any of them had any interests in or had dealt for value in any Shares during the period starting six months prior to the date of the Announcement on 6th June, 2002 and thereafter up to the date ended on the Latest Practicable Date.

(ii) Neither BNP Paribas Peregrine, its ultimate holding company, nor any of its subsidiaries or fellow subsidiaries owned or controlled any Shares as at the Latest Practicable Date, and none of them has dealt for value in any Shares during the period starting six months prior to the Announcement on 6th June, 2002 and thereafter up to the date ended on the Latest Practicable Date.

(iii) No subsidiary of the Company or a pension fund of the Company or of its subsidiaries owned or controlled any Shares as at the Latest Practicable Date, and none of them has dealt for value in any Shares during the period starting six months prior to the date of the Announcement, being the 6th June, 2002 and thereafter up to the date ended on the Latest Practicable Date.

(iv) None of Somerley, Sallmanns (Far East) Limited, any of their respective holding companies, or any of their respective subsidiaries owned or controlled any Shares as at the Latest Practicable Date, and none of them has dealt for value in any Shares during the period starting six months prior to 6th June, 2002 and thereafter up to the date ended on the Latest Practicable Date. None of them has any direct or indirect interests in any assets acquired or disposed of by or leased to any members of the Group, or proposed to be acquired or disposed of by or leased to any member of the Group within the two years immediately preceding the Latest Practicable Date.

(v) No fund manager connected with the Company owned or controlled any Shares as at the Latest Practicable Date, and none of them has dealt for value in any Shares on a discretionary basis during the period starting six months prior to the date of the Announcement, being 6th June, 2002 and thereafter up to the date ended on the Latest Practicable Date.

(vi) No benefit (other than statutory compensation) will be given to any Director as compensation for loss of office in any member of the Group or otherwise in connection with the Rights Issue and/or the Underwriting Agreement.

(vii) Save as disclosed in this circular, as at the Latest Practicable Date, there was no agreement or arrangement between any of the Directors, recent Directors, Shareholders or recent Shareholders, A-ONE, Mr. Patrick Chau and Mr. Leung Yung or any person acting in concert with any of them which is conditional upon or otherwise connected with the Rights Issue and/or the Underwriting Agreement.

(viii) As at the Latest Practicable Date, there was no agreement, arrangement or understanding between A-ONE, Mr. Patrick Chau, Mr. Leung Yung and parties acting in concert with any of them and any other person for the transfer of the beneficial interest in the Shares subscribed by A-ONE under the Rights Issue and/or the Underwriting Agreement.

(ix) Save as disclosed in this circular and which pertain to Mr. Patrick Chau and Mr. Leung Yung, no Director is materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries which contract or arrangement is subsisting at the Latest Practicable Date and which is significant in relation to the business of the Group.

MARKET PRICES

The table below shows the closing prices of the Shares as recorded on the Stock Exchange on (i) the last trading day of each of the six calendar months immediately preceding the date of the Announcement; (ii) 5th June, 2002, being the last trading day immediately preceding the date of suspension of the Shares pending the issue of the Announcement; and (iii) the Latest Practicable Date.

Date	**Closing price**
	HK$
31st December, 2001	0.031
30th January, 2002	0.56
28th February, 2002	0.52
28th March, 2002	0.55
30th April, 2002	0.55
31st May, 2002	0.58
5th June, 2002	0.54
Latest Practicable Date	0.275

Note: A share consolidation was effected on 25th January, 2002 on the basis that 20 of then issued Shares were consolidated into one Share.

The highest and lowest prices at which the Shares have been traded on the Stock Exchange during each of the previous twelve months preceding the Latest Practicable Date were as follows:

	per Share	
	Highest	**Lowest**
	HK$	*HK$*
2001		
July	0.053	0.043
August	0.048	0.043
September	0.046	0.031
October	0.040	0.035
November	0.048	0.035
December	0.038	0.03
2002		
January	0.61	0.031
February	0.55	0.495
March	0.58	0.53
April	0.56	0.52
May	0.62	0.56
June	0.57	0.229

Note: A share consolidation was effected on 25th January, 2002 on the basis that 20 of then issued Shares were consolidated into one Share.

The highest and lowest closing prices of the Shares as recorded on the Stock Exchange during the period between 6th December, 2001 (being the date six months prior to the date of the Announcement) and the Latest Practicable Date were HK$0.62 on 22nd May, 2002 and HK$0.03 on 24th December, 2001 respectively.

LITIGATION

As at the Latest Practicable Date, so far as the Directors are aware, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration or claims of material importance and no litigation or claims of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

MATERIAL CONTRACTS

During the two years immediately preceding the date of this circular, the following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Group and are or may be material:

(a) an agreement dated 18th September, 2001 pursuant to which Peace Mark (B.V.I.) Limited, a wholly owned subsidiary of the Company agreed to acquire 45% of the issued share capital of Capricon Company Limited (which in turn 100% owns Capricon Industrial (Shenzhen) Company Limited) from Goldpfeil Aktiengesellschaft at a consideration of HK$31.5 million. The remaining 55% was held by Peace Mark (B.V.I.) Limited. Completion of this agreement took place on 18th September, 2001;

(b) a loan agreement dated 7th November, 2001 entered into between the Company and a group of banks with Westdeutsche Landesbank Girozentrale, Hong Kong Branch, as the coordinating arranger pursuant to which a 3-year term loan facility available to the Company of HK$200,000,000 which bears interest at HIBOR is made available to the Company for refinancing its existing bank debt, general working capital purpose and the improvement in production facilities and expansion in distribution network of the Group;

(c) an agreement dated 28th March, 2002 pursuant to which Fulltop Limited, a wholly-owned subsidiary of the Group agreed to acquire a brandname and a workshop located in Bienne, Switzerland at a consideration of HK$39.2 million and HK$2 million respectively; and

(d) the Underwriting Agreement (as amended by a supplemental deed relating to the Underwriting Agreement dated 8th July, 2002).

CORPORATE INFORMATION

Legal advisers	Lovells 23rd Floor Cheung Kong Center 2 Queen's Road Central Hong Kong
Registered office of the Company	Clarendon House Church Street Hamilton HM11 Bermuda
Company secretary	Tsang Kwong Chiu, Kevin
Authorised representatives	Chau Cham Wong, Patrick Tsang Kwong Chiu, Kevin
Auditors	Chu and Chu *Certified Public Accountants* Suite 2302-7 ING Tower 308 Des Voeux Road Central Hong Kong
Registrar office	Secretaries Limited 5th Floor Wing On Centre 111 Connaught Road Central Hong Kong
Principal bankers	Bank of China (Hong Kong) BNP Paribas China Construction Bank ING Bank N.V. Hamburgische Landesbank HypoVereinsbank Natexis Banques Populaires Westdeutsche Landesbank Girozentrale

EXPENSES

The expenses in connection with the Rights Issue and the Whitewash Waiver, including financial advisory fee, underwriting commission, printing, registration, translation, legal and accounting charges are estimated to amount to approximately HK$3 million and are payable by the Company.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

Executive Directors

Mr. Chau Cham Wong, Patrick, – aged 53, is the Chairman and is responsible for overall strategic planning and business development. Mr. Chau has over 28 years experience in the watch and clock industry. He served as the director of the Hong Kong Watch and Clock Manufacturing Association from 1984 to 1993 and as the co-chairman of the Hong Kong Watch and Clock Fair. He was also the former adviser and the committee member of the Hong Kong Watch and Clock Trade Advisory Council to the Hong Kong Trade Development Council. He has been with the Group for over 11 years.

Mr. Leung Yung – aged 54, is the Managing Director and is responsible for strategic planning, business development, marketing and product research and development. He is the director of the Hong Kong Watch and Clock Manufacturing Association. He joined the Group since it was founded and has over 35 years experience in the timepiece industry.

Mr. Tsang Kwong Chiu, Kevin – aged 35, is the Finance Director and also the Company Secretary and is responsible for the accounting, financial and company secretarial matters of the Group. Mr. Tsang holds a Master Degree from the University of Hull. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants. Mr. Tsang has more than 13 years experience in accounting and finance.

Mr. Man Kwok Keung – aged 55, is the Group's Technical Director and is responsible for product engineering. Mr. Man holds a Bachelor Degree in Civil Engineering from the University of Calgary, Canada and has more than 19 years experience in production management in the timepiece industry. He has been with the Group since it was founded.

Mr. Cheng Kwan Ling – aged 51, is the Director and is responsible for the general management and finance of the Group's operations in the PRC. Mr. Cheng holds a diploma in management studies from the Hong Kong Polytechnic University and the Hong Kong Management Association and is a member of the British Institute of Management. He has over 28 years experience in accountancy and general management and has been with the Group for over 13 years.

Independent Non-Executive Directors

Sir Oswald Cheung, C.B.E., LL.D., D.Soc.Sc., J.P. – aged 80, has been an honorary steward of The Hong Kong Jockey Club for 10 years and is a former member of the Hong Kong Legislative and Executive Councils. He has been a non-executive Director of the Company since 1993.

The Honourable Lau Wong Fat, G.B.S., J.P. – aged 65, is the Chairman of Wing Tung Yick Investment Limited, a company engaged in real estate development and operation of restaurants. Mr. Lau is currently a member of the H.K.S.A.R. Legislative Council and is also the Chairman of N.T. Heung Yee Kuk and of the Tuen Mun District Board. He has been a non-executive Director of the Company since 1993.

Ms. Susan So – aged 49, is the managing director of Guo Ye Holdings Co., Limited and Guo Ye Enterprises Ltd., the principal activities of which are investment holding and the provision of investment consultancy services covering, among others, telecommunication, media, energy supply in the PRC. Ms. So has extensive management experience in relation to trade and investment projects (including information technology, sales and marketing) in the PRC. She has been a director of a number of listed companies in Hong Kong and a consultant of various companies in the United States and the PRC.

Senior Management

Mr. Leung Chi Shing, Factory Manager – aged 45, is responsible for managing the watch production in Shenzhen, the PRC. Mr. Leung holds a certificate in watch repairing from Lee Wai Lee Technical Institute in Hong Kong. He has over 24 years experience in product management in the watch and clock industry. He has been with the Group for over 17 years.

Mr. Tai Kwan Kong, Terry, Head of Brandname Division – aged 51, is responsible for the business development of the brandname division of the Group. He is a former Director (1992-1995) of The Federation of Hong Kong Watch Traders and Industries Ltd and is also an organizing committee member of HK Watch Q Mark. He has over 31 years experience in the watch industry.

Mr. Yip Chi Hung, Operation Manager – aged 48, is responsible for managing the timepiece operation of the Group. Mr. Yip is also the management representative of ISO 9001 ensuring the Group's continuing compliance of the ISO 9001 standard. He has over 18 years experience in the watch industry and has been with the Group since 1994.

Mr. Chan Wai Pong, Marketing Manager – aged 33, is responsible for the timepiece marketing function, in particular the United States market, of the Group. He has over 11 years experience in the watch industry. He has been with the Group for over 7 years.

Mr. Leung King Chak, King, Financial Controller – aged 34, is responsible for the accounting function of the Group. His credentials include a degree of Master of Accountancy from the Chinese University of Hong Kong and fellow membership of the Association of Chartered Certified Accountants. He has over 11 years experience in the accounting profession, both in Hong Kong and Europe.

Jan Edöcs – aged 31, is the Chief Executive Officer of the Group's Swiss operation and is responsible for the business development and marketing of Milus brand. Prior to joining the Group, he was the Sales-Marketing Director (Switzerland) and International Sales Manager for VERSACE S.A..

QUALIFICATION OF EXPERTS

The following are the qualifications of the experts who have given opinions or advice which are contained in this document:

Name	Qualification
Somerley Limited	Investment adviser and exempt dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
Sallmanns (Far East) Limited	Independent property valuer

CONSENTS

Somerley and Sallmanns (Far East) Limited have given and have not withdrawn their respective written consents to the issue of this circular, with the inclusion herein of their letters and valuation certificate (as the case may be) and references to their names, in the form and context in which they respectively appear.

GENERAL

The correspondence address of A-ONE, Mr. Patrick Chau and Mr. Leung Yung is Unit 3, 12th Floor, Cheung Fung Industrial Building, 23-39 Pak Tin Par Street, Tsuen Wan, Hong Kong.

The registered office of BNP Paribas Peregrine is at 36th Floor, Asia Pacific Finance Tower, 3 Garden Road, Central, Hong Kong.

The registered office of Somerley is at Suite 3108, One Exchange Square, 8 Connaught Place, Central, Hong Kong.

The English text of this circular shall prevail over the Chinese text for the purpose of interpretation.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the office of the Company at Unit 3, 12th Floor, Cheung Fung Industrial Building, 23-39 Pak Tin Par Street, Tsuen Wan, Hong Kong up to and including 1st August, 2002 and at the forthcoming SGM:

– the memorandum of association and Bye-laws of the Company;

– the memorandum and articles of association of A-ONE;

– the Underwriting Agreement (as amended by a supplemental deed relating to the Underwriting Agreement dated 8th July, 2002);

– the letters of undertakings dated 6th June, 2002 from each of Mr. Patrick Chau and Mr. Leung Yung to the Company and the Underwriters in relation to the Rights Issue;

– the letter of advise from Somerley Limited dated 16th July, 2002 the text of which is set out on pages 26 to 43 of this circular;

– the material contracts and the circular of the transactions referred to under the section headed "Material Contracts" in this appendix;

– the audited financial statements of the Group for the two years ended 31st March, 2001 and 31st March, 2002;

– the letter and valuation certificate relating to the property interests of the Group prepared by Sallmanns (Far East) Limited dated 16th July, 2002, the text of which is set out in appendix II; and

– the written consents referred to under the section "Consents" in this appendix.

Peace Mark (Holdings) Limited

(Incorporated in Bermuda with limited liability)

ORDINARY RESOLUTIONS

NOTICE IS HEREBY GIVEN that a special general meeting of the shareholders of Peace Mark (Holdings) Limited (the "**Company**") will be held at Unit 3, 12th Floor, Cheung Fung Industrial Building, 23-39 Pak Tin Par Street, Tsuen Wan, Hong Kong on Thursday, 1st August, 2002 at 9:00 a.m., Hong Kong, for the purpose of considering and, if thought fit, passing (with or without modifications) the resolutions set out below:

1. "**THAT**, subject to the fulfilment of the conditions in respect of the Rights Issue (as defined below) as set out in the circular dated 16th July, 2002 (the "**Circular**") a copy of which has been tabled at the meeting and initialled by the Chairman for the purpose of identification:

   (a) the issue by way of rights ("**Rights Issue**") of 367,822,300 shares ("**Rights Shares**") of HK$0.10 each in the share capital of the Company ("**Shares**") to the holders of Shares whose names appear on the register of members of the Company at the close of business on Thursday, 1st August, 2002, in the proportion of two Rights Shares for every one Share then held at the subscription price of HK$0.18 per Rights Share and otherwise on the terms and subject to the conditions of the Rights Issue as set out in the Circular be and is hereby approved;

   (b) the directors of the Company ("**Directors**") be and are hereby authorised to allot and issue the Rights Shares pursuant to or in connection with the Rights Issue provided that in the case of shareholders of the Company whose addresses as shown on the register of members of the Company at the close of business on Thursday, 1st August, 2002 are in any jurisdictions outside Hong Kong ("**Overseas Shareholders**"), the Rights Shares shall not be issued to the Overseas Shareholders but shall be aggregated and issued to a nominee to be named by TIS Securities (HK) Limited ("**TIS Securities**") and such Rights Shares shall be sold in the market as soon as practicable after dealings in nil-paid Rights Shares commence and the proceeds of such sale (after deduction of expenses) of HK$500 or more will be paid pro-rata to the Overseas Shareholders and the Company shall retain individual amount of less than HK$500; and

(c) the Directors be and are hereby authorised to make such other exclusions or other arrangements in relation to the Overseas Shareholders as they may deem necessary or expedient and generally to do such things or make such arrangements as they may think fit to give effect to the Rights Issue."

2. (a) "**THAT** subject to the passing of Resolution No. 1 as set out in the notice convening this meeting of which this resolution forms part, the entering into by the Company of the underwriting agreement with TIS Securities, A-ONE INVESTMENTS LIMITED ("**A-ONE**"), Mr. Patrick Chau and Mr. Leung Yung on 6th June, 2002 (as amended by the supplemental deed dated 8th July, 2002) ("**Underwriting Agreement**") be and is hereby approved, consented to and confirmed."

(b) "**THAT** subject to the passing of Resolution No. 1 as set out in the notice convening this meeting of which this resolution forms part and the Underwriting Agreement becoming unconditional in accordance with its terms and pursuant to Note 1 to the "Notes on dispensations from Rule 26" of the Hong Kong Code on Takeovers and Mergers ("**Takeovers Code**"), a waiver in respect of any obligation of A-ONE, Mr. Patrick Chau, Mr. Leung Yung and parties acting in concent with any of them at the relevant time to make a mandatory general offer for the shares in the capital of the Company (other than those shares held or agreed to be acquired by them and parties acting in concert with any of them at the relevant time) which would otherwise have to be made under Rule 26 of the Takeovers Code as a result of the Underwriting Agreement becoming unconditional and in the event A-ONE is called upon to take up its obligations under the Underwriting Agreement or otherwise pursuant to the Rights Issue, be and is hereby approved, consented to and confirmed."

3. "**THAT**:

(a) the general mandate granted to the Directors of the Company to exercise the powers of the Company to allot, issue and otherwise deal with the shares of HK$0.10 each in the capital of the Company at the special general meeting held on 24th January, 2002 (as set out in the ordinary resolution No. 2 contained in the circular of the Company relating to the same dated 2nd January, 2002), to the extent not already exercised be and is hereby revoked (without prejudice to any valid exercise of such general mandate prior to the passing of this resolution);

(b) subject to paragraphs (c) and (d) of this resolution, the exercise by the Directors during the Relevant Period (as defined in paragraph (e) below) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which would or might require the exercise of such powers be and is hereby generally and unconditionally approved;

(c) the approval in paragraph (b) of this resolution shall authorise the Directors during the Relevant Period (as defined in paragraph (e) below) to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period (as defined below);

(d) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in paragraph (b) of this resolution otherwise than pursuant to:

(i) a Rights Issue (for the purpose of this resolution, the term "Rights Issue" shall have the meaning as set out in paragraph (e) below); or

(ii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Bye-laws of the Company; or

(iii) the exercise of rights of conversion or subscription under the terms of any securities which are convertible into shares of the Company or the share option scheme or similar arrangement of the Company for the time being adopted for the grant or issue to Directors and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company,

shall not exceed 20 per cent of the aggregate nominal amount of the issued share capital of the Company in issue immediately following completion of the Rights Issue (as defined in Resolution No. 1 of the notice convening this meeting of which this resolution forms part) or if the Rights Issue is not completed, on the date of this resolution; and

(e) for the purposes of this resolution:

"**Relevant Period**" means the period from the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by Bermuda law or the Company's Bye-laws to be held;

(iii) the revocation or variation of the approval given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting.

"**Rights Issue**" means an offer of shares open for a period fixed by the Directors to holders of shares on the register of members on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong)."

By Order of the Board
Peace Mark (Holdings) Limited
Chau Cham Wong, Patrick
Chairman

Hong Kong, 16th July, 2002

Registered Office:
Clarendon House
Church Street
Hamilton HM11
Bermuda

Notes:

1. Any member entitled to attend and vote may appoint one or more proxies to attend the meeting and vote instead of him. A proxy need not be a member of the Company.

2. The form of proxy shall be in writing under the hand of the appointer of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised.

3. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority, must be deposited at the Company's head office and principal place of business in Hong Kong at Unit 3, 12th Floor, Cheung Fung Industrial Building, 23-39 Pak Tin Par Street, Tsuen Wan, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting should you wish.

Peace Mark (Holdings) Limited

(Incorporated in Bermuda with limited liability)

FORM OF PROXY FOR USE BY SHAREHOLDERS AT THE SPECIAL GENERAL MEETING TO BE HELD AT 9:00 A.M. ON THURSDAY, 1ST AUGUST, 2002

I/We[1] ____

of ____

being the registered holder(s) of[2] ____

shares of HK$0.10 each in the capital of PEACE MARK (HOLDINGS) LIMITED (the "Company"), hereby appoint[3]

the Chairman of the meeting or ____

of ____

as my/our proxy to attend and vote for me/us and on my/our behalf in the manner indicated below, or if no such indication is given then to vote as my/our proxy thinks fit, at the special general meeting of the Company to be held at 9:00 a.m. on Thursday, 1st August, 2002 at Unit 3, 12th Floor, Cheung Fung Industrial Building, 23-39 Pak Tin Par Street, Tsuen Wan, Hong Kong or at any adjournment thereof for the purpose of considering and, if thought fit, passing the resolutions set out in the notice convening the said special general meeting in the Company's circular dated 16th July, 2002 (the "Notice of the SGM").

RESOLUTIONS	FOR[4]	AGAINST[4]
1. Ordinary Resolution No. 1		
2. Ordinary Resolution No. 2		
3. Ordinary Resolution No. 3		

Dated this ____________ day of ____________ 2002 Signature of shareholders[5]: ____________________

Notes:

1. Full name(s) and address(es) to be inserted in BLOCK CAPITALS.
2. Please insert the number of shares registered in your name(s) to which this form of proxy relates. If no number is inserted, this form of proxy will be deemed to relate to all the shares in the capital of the Company registered in your name(s).
3. If any proxy other than the Chairman of the meeting is preferred, strike out the words "the Chairman of the meeting or" and insert the name and address of the proxy desired in the space provided. If this space is not completed, the Chairman of the meeting will act as your proxy. ANY ALTERATION MADE TO THIS FORM OF PROXY MUST BE INITIALLED BY THE PERSON WHO SIGNS IT.
4. Please indicate by an "X" in the appropriate box how you wish your votes to be cast. Without such specific directions the proxy may at his/her discretion vote for or against the resolution or abstain from voting.
5. This form of proxy must be signed by the appointer or his attorney duly authorised in writing, or if such appointer is a corporation, either under its common seal or under the hand of an officer or attorney so authorised. In the case of joint holders, this form of proxy must be signed by the member whose name stands first.
6. In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy or by authorised representative, shall be accepted to the exclusion of the vote(s) of the other joint holder(s), and for this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holders.
7. In order to be valid, this form of proxy, duly executed, and the power of attorney, or a notorised copy thereof, must reach the office of the Company's head office and principal place of business in Hong Kong at Unit 3, 12th Floor, Cheung Fung Industrial Building, 23-39 Pak Tin Par Street, Tsuen Wan, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
8. The proxy need not be a member of the Company but must attend the meeting in person to represent you.
9. Completion and delivery of this form of proxy will not preclude you from attending and voting at the meeting if you wish so. In that event, this form of proxy will be deemed to have been revoked.