

Interim Report 中期報告

2007



Peace Mark (Holdings) Limited
宜進利(集團)有限公司

Stock Code 股份編號 : 0304

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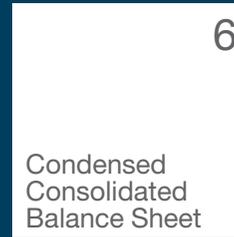
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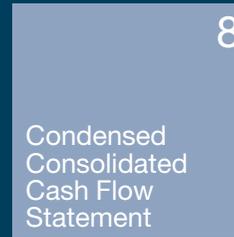
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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Chau Cham Wong, Patrick (*Chairman*)
Mr. Leung Yung (*Chief Executive Officer*)
Mr. Tsang Kwong Chiu, Kevin, FCCA,
HKICPA, MBA, MSc
Mr. Man Kwok Keung
Mr. Cheng Kwan Ling

Independent Non-Executive Directors

Ms. Susan So
Mr. Kwok Ping Ki, Albert
Mr. Tang Yat Kan
Mr. Wong Yee Sui, Andrew, CPA
Mr. Mak Siu Wing, Clifford

COMPANY SECRETARY

Ms. Fong Ho Yan, FCCA, HKICPA

HEAD OFFICE

Hong Kong

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

PRODUCTION FACILITIES

China

107 Shui Ku Lu
Fenghuang Gang
Xixiang, Baoan
Shenzhen, PRC

Block 9 & Block 12
Tong Fu Cun Gong Ye Yuan
Da Lang Cun
Long Hua Zhen
Baoan
Shenzhen, PRC

Third Gong Ye Qu
Bitou Estate
Songgang Baoan
Shenzhen, PRC

38 Shi Ma Lu Duan
Jiu Guang Hua Lu
Bai Yun Qu
Guangzhou, PRC

32 Wudong Road
Yangpu District
Shanghai, PRC

No. 11 Fukang Road
Nankai District
Tianjin, PRC

Swiss

Route de Reuchenette 19
2502 Bienne
Switzerland

WEBSITE

<http://www.peacemark.com>

REGISTERED OFFICE

Clarendon House, Church Street
Hamilton HM 11
Bermuda

STOCK INFORMATION

Listed on the main board of Stock
Exchange of Hong Kong Limited

STOCK CODE

SEHK : 304
Bloomberg : 304 HK
Reuters : 304.HK

INVESTOR RELATIONS

Corporate Communications Department
– General
Investor Relations Department
– Investor Relations
Peace Mark (Holdings) Limited
Unit 3, 12th Floor,
Cheung Fung Industrial Building
23-39 Pak Tin Par Street
Tsuen Wan, Hong Kong
Email: ccd@peacemark.com
ir@peacemark.com

Corporate Information

PRINCIPAL BANKERS

ABN AMRO Bank N.V.
Agricultural Bank of China
Bank of China
Bank of East Asia
BNP Paribas
Calyon
Deutsche Bank
ING Bank N.V.
Hang Seng Bank
HSH Nordbank AG
Merrill Lynch
Standard Chartered Bank
Sumitomo Mitsui Banking Corporation

AUDITORS

Chu and Chu
Certified Public Accountants
A member of AGN International
Suite 2302-7, ING Tower
308 Des Voeux Road Central
Hong Kong

LEGAL ADVISORS

Huen Wong & Co. in association with
Fried, Frank, Harris, Shriver &
Jacobson LLP
9th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

Gallant Y.T. Ho & Co.
5th Floor, Jardine House
1 Connaught Place
Hong Kong

SHARE REGISTRARS AND TRANSFER OFFICES

In Hong Kong:

Tricor Secretaries Limited
26/F, Tesbury Centre,
28 Queen's Road East
Wanchai, Hong Kong

In Bermuda:

The Bank of Bermuda Limited
Bank of Bermuda Building
6 Front Street
Hamilton HM 11
Bermuda

Financial Highlights

	Six months ended 30 September,		Changes %
	2007 HK\$'million (Unaudited)	2006 HK\$'million (Unaudited)	
Turnover	1,793.9	1,292.6	38.8
Earnings before interest, tax, depreciation and amortization	265.5	186.5	42.4
Profit attributable to shareholders	172.5	119.4	44.5
Earnings per share (HK cents)	16.78	12.05	39.3
Dividend per share (HK cents)	5.0	4.1	22.0
Total equity	2,249.1	1,645.1	36.7

Financial Position	As at 30 September, 2007 (Unaudited)	As at 31 March, 2007 (Audited)	Changes %
	Total assets (HK\$ million)	5,916.5	
Cash and bank balances (HK\$ million)	1,813.3	1,460.0	24.2
Total equity (HK\$ million)	2,492.9	2,036.5	22.4
Net assets per share (HK\$)	2.39	2.05	16.6

The board of directors (the "Board") of Peace Mark (Holdings) Limited (the "Company") is pleased to present the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 September, 2007 together with the comparative figures for the corresponding period as follows:

Condensed Consolidated Income Statement

		Six months ended 30 September,	
	Note	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Turnover	3	1,793,871	1,292,624
Cost of sales		(1,214,958)	(894,055)
Gross profit		578,913	398,569
Other revenue		56,480	59,647
Selling and distribution expenses		(185,254)	(158,507)
Administrative and general expenses		(175,074)	(113,819)
Other operating expenses		(20,966)	(9,619)
Profit from operations		254,099	176,271
Share of profit (loss) of associates		2,436	(723)
Share of profit (loss) of a jointly controlled entity		1,276	(618)
Finance costs		(56,372)	(47,117)
Profit before taxation	3, 4	201,439	127,813
Taxation	5	(21,646)	(7,300)
Profit for the period		179,793	120,513
Attributable to:			
Equity holders of the Company		172,505	119,395
Minority interests		7,288	1,118
		179,793	120,513
Interim dividend	6	52,115	40,704
Earnings per share for profit attributable to equity holders of the Company during the period			
Basic (HK cents)	7	16.78	12.05
Diluted (HK cents)		16.00	11.81

Condensed Consolidated Balance Sheet

	Note	As at 30 September, 2007 (Unaudited) HK\$'000	As at 31 March, 2007 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment		677,435	518,010
Freehold land and interest in leasehold land		7,877	7,961
Intangible assets		251,452	239,289
Interest in associates		130,324	87,300
Interest in a jointly controlled entity		16,298	15,994
Other financial assets		269,171	181,057
Deferred tax assets		9,131	9,566
		1,361,688	1,059,177
Current assets			
Inventories		1,450,596	1,015,963
Derivative financial instruments		51,903	46,282
Other financial assets at fair value through profit or loss		29,938	6,585
Trade receivables	8	773,147	613,776
Trade deposits and other receivables		435,942	266,718
Cash and bank balances		1,813,314	1,460,091
		4,554,840	3,409,415
Current liabilities			
Trade and other payables	9	472,207	294,789
Derivative financial instruments		57,592	24,023
Interest-bearing borrowings	10	817,812	988,231
Obligations under finance leases		146	200
Tax payable		49,192	33,878
		1,396,949	1,341,121
Net current assets		3,157,891	2,068,294
Total assets less current liabilities		4,519,579	3,127,471
Non-current liabilities			
Interest-bearing borrowings	10	2,013,868	1,077,727
Obligations under finance leases		82	142
Deferred tax liabilities		12,729	13,064
		2,026,679	1,090,933
Net assets		2,492,900	2,036,538
Capital and reserves			
Share capital		104,153	99,308
Reserves		2,144,907	1,707,171
Equity attributable to equity holders of the Company		2,249,060	1,806,479
Minority interests		243,840	230,059
Total equity		2,492,900	2,036,538

Condensed Consolidated Statement of Changes in Equity

	Attributable to Equity Holders of the Company												
	Share capital HK\$'000	Share premium HK\$'000	Merger deficit HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Other reserve HK\$'000	Fair value reserve HK\$'000	Share option reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
As at 1 April, 2007	99,308	634,616	(11,987)	12,372	356,740	(26)	(1,483)	23,456	(2,332)	695,815	1,806,479	230,059	2,036,538
Issue of new shares pursuant to the exercise of options	4,845	271,313	-	-	-	-	-	-	-	-	276,158	-	276,158
Fair value adjustment of available-for-sale investment	-	-	-	-	-	-	321	-	-	-	321	-	321
Share-based payment	-	-	-	-	-	-	-	46,960	-	-	46,960	-	46,960
Transfer from share option reserve to share premium upon exercise of options	-	45,580	-	-	-	-	-	(45,580)	-	-	-	-	-
Exchange realignment	-	-	-	-	-	-	-	-	8,660	-	8,660	-	8,660
Profit for the period	-	-	-	-	-	-	-	-	-	172,505	172,505	7,288	179,793
Increase in investment from minority interests	-	-	-	-	-	-	-	-	-	-	-	2,005	2,005
Minority interests arising from acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	16,188	16,188
Acquisition of minority interests in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(11,700)	(11,700)
2007 final dividend paid	-	-	-	-	-	-	-	-	-	(62,023)	(62,023)	-	(62,023)
As at 30 September, 2007	104,153	951,509	(11,987)	12,372	356,740	(26)	(1,162)	24,836	6,328	806,297	2,249,060	243,840	2,492,900
As at 1 April, 2006	98,974	626,608	(11,987)	12,372	356,740	(26)	(1,312)	3,588	(2,552)	478,920	1,561,325	107,573	1,668,898
Issue of new shares pursuant to the exercise of options	289	6,008	-	-	-	-	-	-	-	-	6,297	-	6,297
Fair value adjustment at available-for-sale investment	-	-	-	-	-	-	411	-	-	-	411	-	411
Share-based payment	-	-	-	-	-	-	-	4,000	-	-	4,000	-	4,000
Exchange realignment	-	-	-	-	-	-	-	-	(3,706)	-	(3,706)	-	(3,706)
Profit for the period	-	-	-	-	-	-	-	-	-	119,395	119,395	1,118	120,513
Increase in investment from minority interests	-	-	-	-	-	-	-	-	-	-	-	1,441	1,441
Minority interests arising from setting up new subsidiaries	-	-	-	-	-	-	-	-	-	-	-	42,992	42,992
Acquisition of minority interests in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(10,559)	(10,559)
2006 final dividend paid	-	-	-	-	-	-	-	-	-	(42,664)	(42,664)	-	(42,664)
As at 30 September, 2006	99,263	632,616	(11,987)	12,372	356,740	(26)	(901)	7,588	(6,258)	555,651	1,645,058	142,565	1,787,623

Condensed Consolidated Cash Flow Statement

	Note	Six months ended 30 September,	
		2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Net cash (used in) from operating activities		(251,198)	104,126
Net cash used in investing activities		(341,500)	(61,123)
Net cash from (used in) financing activities		945,921	(11,188)
Net increase in cash and cash equivalents		353,223	31,815
Cash and cash equivalents at 1 April,		1,460,091	1,185,789
Cash and cash equivalents at 30 September,		1,813,314	1,217,604
Analysis of the balances of cash and cash equivalents:			
Cash and bank balances		1,813,314	1,217,604

Notes to Condensed Consolidated Interim Financial Information

1. BASIS OF PREPARATION

This condensed consolidated interim financial information has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and with applicable requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”).

2. ACCOUNTING POLICIES

The accounting policies used in the condensed consolidated interim financial information are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 March, 2007 except that the Group has changed certain of its accounting policies following its adoption of new Hong Kong Financial Reporting Standards (“HKFRS”), amendments to standards and interpretations (collectively referred to as the “New HKFRSs”), which have become effective for accounting periods beginning on or after 1 April, 2007. The applicable New HKFRSs adopted in this condensed consolidated interim financial information are set out below.

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions

The adoption of the above New HKFRSs did not result in substantial changes to the Group’s balance sheet and income statement.

The following new standards, amendments to standards and interpretations, which are relevant to the Group, have been issued but are not effective for the year ending 31 March, 2008 and have not been early adopted by the Group:

HKAS 23 (Revised)	Borrowing Costs
HKFRS 8	Operating Segments
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

Notes to Condensed Consolidated Interim Financial Information

3. TURNOVER AND SEGMENTAL INFORMATION

Segment information is presented by way of geographical segments. As the Group's turnover and operating profit were contributed solely by manufacturing, trading, distributing and retailing and related service income of timepieces products, business segments are not presented.

In determining the Group's geographical segments, segment revenue and results are based on the final destination of goods sold as follows:

	Turnover		Segment results	
	Six months ended 30 September, 2007		Six months ended 30 September, 2007	
	(Unaudited) HK\$'000	(Unaudited) 2006 HK\$'000	(Unaudited) HK\$'000	(Unaudited) 2006 HK\$'000
The Americas	386,400	421,124	53,255	56,129
Asia (excluding China)	139,788	179,523	13,492	16,693
Europe	159,609	124,912	15,935	11,614
China	1,108,074	567,065	182,823	102,099
	1,793,871	1,292,624	265,505	186,535
Unallocated expenses, net			(7,694)	(11,605)
Finance costs			(56,372)	(47,117)
Profit before taxation			201,439	127,813

Notes to Condensed Consolidated Interim Financial Information

4. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging (crediting):

	Six months ended 30 September,	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	41,077	31,303
Net exchange loss	12,837	244
Staff costs, including Directors' emoluments		
– Wages, salaries and benefits in kind	105,835	82,316
– Pension cost	3,434	1,607
– Share option expense	25,404	2,856
Minimum lease payments in respect of properties under operating leases	75,721	28,402
Interest expenses	56,372	47,117
Interest income	(29,671)	(21,039)
Interest income from debt instruments	(14,820)	(15,795)
Net (gain) loss on derivative financial instruments	(3,679)	1,852
Net gain on other financial assets at fair value through profit or loss	(829)	(1,165)

5. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (30 September 2006: 17.5%) on the estimated assessable profits. Taxation on other overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the subsidiaries of the Group operate.

	Six months ended 30 September,	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current period		
– Hong Kong profits tax	10,013	6,202
– The People's Republic of China (the "PRC")	9,874	760
– Overseas	1,859	651
Deferred taxation		
– Origination and reversal of temporary differences	(100)	(313)
	21,646	7,300

Notes to Condensed Consolidated Interim Financial Information

6. INTERIM DIVIDEND

	Six months ended 30 September,	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
2007 interim dividend declared of 5.0 HK cents (2006: 4.1 HK cents) per ordinary share	52,115	40,704

This dividend declared after the balance sheet date has not been recognized as a liability at the balance sheet date.

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is as follows:

	Six months ended 30 September,	
	2007 (Unaudited)	2006 (Unaudited)
Profit attributable to equity holders of the Company (in HK\$'000)	172,505	119,395
Weighted average number of shares for the purpose of basic earnings per share calculation (in '000)	1,028,085	990,740
Potential dilutive shares – share options (in '000)	50,395	20,038
Weighted average number of shares for the purpose of diluted earnings per share calculation (in '000)	1,078,480	1,010,778
Basic earnings per share (HK cents)	16.78	12.05
Diluted earnings per share (HK cents)	16.00	11.81

Notes to Condensed Consolidated Interim Financial Information

8. TRADE RECEIVABLES

Payment terms with customers are mainly on credit. Invoices are normally payable within 90 days to 120 days of issuance. Each customer has a pre-set maximum credit limit.

An aging analysis of trade receivables is as follows:

	As at 30 September, 2007 (Unaudited) HK\$'000	As at 31 March, 2007 (Audited) HK\$'000
Trade receivables:		
Not yet due	599,099	369,553
Overdue within 90 days	109,030	221,559
Overdue between 91 to 180 days	48,753	14,739
Overdue over 180 days	16,265	7,925
	773,147	613,776

9. TRADE AND OTHER PAYABLES

An aging analysis of trade payables is as follows:

	As at 30 September, 2007 (Unaudited) HK\$'000	As at 31 March, 2007 (Audited) HK\$'000
Trade payables:		
Not yet due	143,955	67,054
Overdue within 90 days	117,663	42,300
Overdue between 91 to 180 days	7,359	16,334
Overdue over 180 days	12,208	24,806
	281,185	150,494
Accruals and other payables	191,022	144,295
	472,207	294,789

Notes to Condensed Consolidated Interim Financial Information

10. INTEREST-BEARING BORROWINGS

	As at 30 September, 2007 (Unaudited) HK\$'000	As at 31 March, 2007 (Audited) HK\$'000
Interest-bearing borrowings are repayable as follows:		
– Not exceeding one year or upon demand	817,812	988,231
– More than one year, but not exceeding two years	837,866	285,815
– More than two years, but not exceeding five years	1,176,002	791,912
	2,831,680	2,065,958
Representing:		
Current portion	817,812	988,231
Non-current portion	2,013,868	1,077,727
	2,831,680	2,065,958
Analyzed as:		
– Secured	–	–
– Unsecured	2,831,680	2,065,958
	2,831,680	2,065,958

The carrying value of interest-bearing borrowings approximated to their fair value.

Notes to Condensed Consolidated Interim Financial Information

11. OPERATING LEASE ARRANGEMENTS

As at 30 September, 2007 the Group had total future minimum lease payments under non-cancellable operating leases in respect of leasehold land and buildings falling due as follows:

	As at 30 September, 2007 (Unaudited) HK\$'000	As at 31 March, 2007 (Audited) HK\$'000
Within one year	176,079	105,260
More than one year but within five years	416,039	226,110
More than five years	63,875	22,700
	655,993	354,070

12. CONTINGENT LIABILITIES

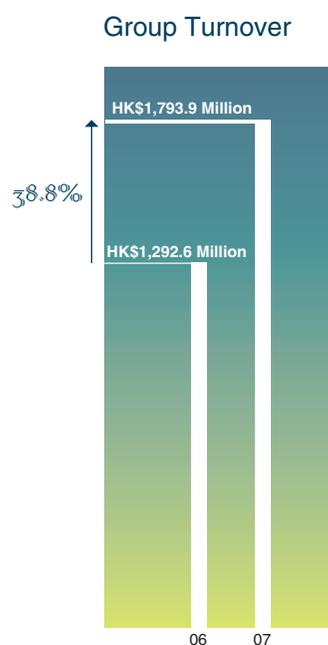
As at 30 September, 2007, the Group had no material contingent liabilities. The Group has given corporate guarantees to banks in respect of general banking facilities and derivative facilities granted to associate amounting to approximately HK\$171,750,000 (31 March, 2007: HK\$268,000,000).

As at 30 September, 2007, there was no material capital commitment.

13. POST BALANCE SHEET EVENT

On 7 December, 2007, the Company's wholly owned subsidiary A-A United Limited (the "Offeror") entered into the Major Shareholder Irrevocable Undertaking on 7 December, 2007 with the major shareholder of Sincere Watch Limited ("Sincere Watch") pursuant to which the major shareholder has agreed, subject to the Offeror proceeding with the offer to accept an offer from the Offeror in respect of its entire shareholding in Sincere Watch, representing, as at 6 December, 2007, approximately 50.67% of the issued share capital of Sincere Watch. Further details are set out in the Company's announcement on the even date.

Management Discussion and Analysis



REVIEW OF OPERATION

Peace Mark turned in an outstanding result for the six-month period ended 30 September, 2007, the first half of the financial year 2008 ("1H2008").

Group Turnover for the 1H2008 amounted to HK\$1,793.9 million, an increase of HK\$501.3 million or 38.8% compared to the corresponding period last year. The growth is primarily due to increased revenue from China retail operation.

Turnover for China and Hong Kong operations increased by 95.4% to HK\$1,108.1 million. Mainland China continued to be our fastest growing market with our execution capability in expanding the market by acquisitions and organic growth.

Group EBITDA margin for 1H2008 was 14.8%, an increase of 0.4 percentage points, representing 42.4% improvement. The overall margin of the group was improved as a result of the increased turnover mix from China.

Luxury market

The luxury watch industry in general has seen tremendous growth in China and Hong Kong. Swiss Watch Federation reported that the year-to-date growth of China and Hong Kong is 70% and 43%, respectively.

The Group was operating 88 watch and jewellery shops at the end of the six-month period. An additional 7 shops were opened subsequent to the end of September resulting in a network of 95 shops in total operating in China, Hong Kong and Macau. Same-store-sales growth for the period was 20%.

The Group adopted a multi-pronged strategy to cope with the phenomenal growth of the China market and the demand of different customer target segments. In terms of retail formats, we have been operating mono- and multi-brands shops in parallel.

Tourneau

In August 2007, in addition to the 4 Tourneau stores operating in Beijing and Shanghai, the Group opened a Tourneau store of approximately 4,500 square feet at the Venetian Casino and Resort in Macau. Sales were encouraging for the store in a newly-built shopping mall and the business is expected to grow further once the Venetian becomes fully operational. In Hong Kong, a Tourneau of approximately 1,500 square feet is currently under renovation and is expected to be opened in the first quarter of year 2008. We continue to look for the best locations in China for further expansion of our presence.

Management Discussion and Analysis



Luxury store, Guangxi



Boucheron boutique, Shanghai

Domestic Joint Venture

In addition to the joint ventures formed in various cities including Chongqing, Ningbo, Shenzhen and Chengdu, the recognition of the Shenyang joint venture as a 51% owned subsidiary was completed during the period. The financial performance of its 6 stores was consolidated accordingly, making a total of 46 joint venture shops at the end of September. The joint venture in Ningbo extended the presence in Hangzhou with 6 new stores there. We also increased the market share in Urumqi by opening up to 8 stores during the period. We recognized a very good sales performance in Urumqi. While the management resources have been committed to a substantial cross-border acquisition deal in 1H2008, the negotiations of other potential mergers and acquisitions as well as joint venture opportunities in China are underway.

Mono-brand shops

The Group has 35 mono-brand shops operating in China and Hong Kong as at the end of the six-month period. As one of the mainstream retail formats, the Group has continued to open mono-brand shops for various high-end brands in Hong Kong and China where Peace Mark has its own or joint venture operations. The Rolex shop opened February in Canton Road, Hong Kong has been performing extremely well and contributed positively to earnings for the period.

Boucheron

The Group has an agreement with Boucheron to operate Boucheron shops in Hong Kong, China and Macau. At present, the Group is operating 2 Boucheron shops in Hong Kong and Shanghai. A new shop located at Plaza 66 in Shanghai has just been opened. Another shop located at the Venetian in Macau is under renovation and is expected to be opened within this financial year. We expect to open up to 6 Boucheron boutiques by the end of December 2008.

Middle-range market

In China, both urban and rural residents' income reported significant growth for the first nine months this year with an increase of 13.2% and 14.8%, respectively.

With the increasing disposable income both in the urban and rural cities in China, the middle-range segment has been performed well. Watches come as a fashion accessory instead of merely a time device for the new generation. Given the increasing brand awareness of the middle class, imported brands have been gaining market share and to a certain extent have been out-performing local brands in many Mainland cities. We have continued to distribute and retail for over 120 brands in Greater China. The distribution and retail network in China reached 920 POS at the end of the six-

Management Discussion and Analysis

month period and the same-store-sales for the period increased 21% compared to the corresponding period last year on the surging consumption and increasing brand consciousness.

There are 20 POS and 18 POS of TimeZone operating in Hong Kong and Taiwan, respectively at the end of the period. A complete Greater China network coverage makes Peace Mark a preferred distribution and retail partner in the region.

Point of Sales

China	920
Hong Kong	20
Taiwan	18

MANUFACTURING AND US DISTRIBUTION

Refocusing Manufacturing

Peace Mark has been in the process of shifting its focus in manufacturing from low-end to high-end.

Slowing US consumption caused a lower than expected financial performance for the US market. Stale US economy has made buyers more cautious in forecasting order level. In order to spare the capacity for the higher-end manufacturing outsourcing of the US manufacturing business continued during the period, thus resulting in less reliance on the US market. We provided supply

chain management to various mid-range brands from design, manufacturing, distribution to retailing. We had progressively increased domestic sales for own manufacturing. In accounting, the manufacturing turnover will be eliminated with the China retail turnover. We had not only diversified the brand portfolio but also represented more high-end fashion brands with mechanical movements.

Mechanical movements are a key component of high-end watches and have been in short supply on a global basis. Peace Mark plans to strengthen its mechanical watch movements manufacturing capability. In addition to Shanghai Golden Time Precision which produces approximate 50,000 pieces a year, Peace Mark entered into a preliminary agreement to acquire 51% of Tianjin Seagull Watch Company's movements factory. Capital injection of the transaction was completed in October 2007 and therefore no contribution was reported from the factory for the period. This Tianjin watch movements facility has a capacity of producing 6,000,000 pieces a year and currently the annual output is approximately 4,000,000 pieces. Together with the movements factory in Shanghai, Peace Mark has become the leader in the China mechanical watch movements market with a market share in mechanical movements manufacturing of approximately 40% and possesses superb manufacturing technology capable of producing various complications.



EEC TimeZone, Hong Kong



Mega TimeZone, Hong Kong

Management Discussion and Analysis

At the end of the six-month period, an amount of HK\$86 million was injected into the newly formed Seagull joint venture, which was in the process of capital verification for the formation of the joint venture. The Seagull joint venture enjoys a historical net profit margin of 9% in mechanical manufacturing and we expect the overall manufacturing margin will expand.

On 9 May, 2007, Peace Mark and Swissebauches entered into the agreement, pursuant to which Swissebauches appointed Peace Mark as its sole and exclusive distributor of timepiece movements manufactured by Swissebauches for an initial term of three years. This has enabled us to anchor a stable source of high quality and low price supplier of timepiece movements with the flexibility to purchase such timepiece movements according to the Group's sales needs and strategies.

On 12 September, 2007, A-One Investments Ltd, the controlling shareholder and Peace Mark entered into a call option agreement pursuant to which the controlling shareholder unconditionally granted an irrevocable and exclusive call option to Peace Mark at HK\$1.0 whereby the controlling shareholder shall transfer to Peace Mark the 100% equity interest it holds in a group of three movements manufacturers namely, Soprod, SFT and Swissebauches, which are operating in Switzerland, France and China. The call option has no expiry date.

Peace Mark had decided not to proceed with the acquisition of the group of three movements manufacturers but accepted the call option agreement, as that group has been loss-making and would impact our financial results. However, given mechanical watch movements are in huge demand and will be in short supply globally, Peace Mark would revisit and consider acquiring them in the future. The price is pre-determined as the lower of the original acquisition costs together with the shareholders' loan or the net asset value. Peace Mark enjoys the upside of the transaction should this group of manufacturers financially turn around in the short supply environment in the next few years.

9 May, 2007

Entered into the agreement with Swissebauches.

12 Sept, 2007

Entered into a call option agreement with A-One Investments Limited

PROPOSED ACQUISITION

Regarding the retail expansion plan, on the even date, Peace Mark announced that it intends to acquire a major equity interest in Sincere Watch by way of a pre-conditional voluntary general offer. Under the Listing Rules, the offer constitutes a possible major transaction for the Company requiring shareholders' approval.

Hong Kong, Singapore and China together accounted for approximately 25% of Swiss exports in 2006. In September 2007, Hong Kong, Singapore and Mainland China were the biggest, sixth biggest and seventh biggest importers of Swiss watches, respectively in terms of value. Hong Kong is the trading hub for high-end watches in North Asia whereas Singapore is a trading hub in South East Asia. Various reports support that China and India will be amongst the highest growth markets for luxury products.

With respect to geographic reach, Sincere presently operates luxury watch retail shops in several markets where Peace Mark has no existing operations, namely Singapore, Malaysia, Thailand, India, Australia, South Korea and Indonesia. Approximately, 72.5% of its revenue was derived from South East Asia and 27.5% from North Asia, mainly Hong Kong and China. An exposure to these markets is in line with Peace Mark's strategy of being a major regional player with a balanced established and high growth markets in the luxury watch retail segment.

The transaction with Sincere Watch will allow Peace Mark to increase its exposure to the luxury segment on a larger scale and within a shorter timeframe than would be possible through organic expansion. Another key related element is the combined management depth of Peace Mark and Sincere Watch, which will create synergy effect.

Management Discussion and Analysis

BRAND MANAGEMENT

Milus has put a lot of emphasis on design and its effort was recognized by one of the most representative organizations in France. On 5 December, 2007, Milus has been honoured with the first prize in the <Ladies Watch> category with its MERA TriRetrograde Seconds Skeleton in the “Prix Officiel de La Revue des Montres” announced by La Revue des Montres. The “Prix Officiel de La Revue des Montres” laureates the novelties of the most renowned brands of the watch industry for their creative research, quality and innovation. The jury is comprised of 10 members from the experts and journalists specialized in the watch industry including the Presidents of Swiss Watch Federation.

During the period, we also received The Excellence Investor Relationship award by Prime magazine and The Best Investor Relations award by Capital CEO magazine in recognition our effort in communicating with the investing communities.

Awards

The Hong Kong Institute of Directors

“Directors of The Year Awards 2007”
Board Category Listed Company
(SEHK - Non-Hang Seng Index)

Prime Magazine

Brand Excellence 2007

The Excellence Investor Relations

Capital CEO

Supreme Brand Awards 2007

The Best Investor Relations



Milus “MERA TriRetrograde Seconds Skeleton”

CORPORATE GOVERNANCE AND INVESTOR RELATIONSHIP

On 28 November, 2007, the Board of Directors was pleased to receive the “Directors Of The Year Awards 2007” non-Hang Seng Index Constituents Board category. The award is representative of the recognition from the financial community of Peace Mark’s relentless efforts to improve the Group’s corporate governance and enhance shareholder’s value.



The members of the Board receive Directors of the Year Award from The Hong Kong Institute of Directors

Management Discussion and Analysis

PROSPECT

Looking forward to the rest of the 2008 financial year, a combination of external growth and internal growth as well as leveraging the balance sheet will be the core of our corporate expansion strategies.

We are considering cross-border expansion in the luxury watch division in order to be successful in the long-term. Various factors have been considered and weighted to explore new markets. Given the fine differentiation in the products we are selling through the network, size matters as smaller players cannot compare in terms of scale benefits in purchasing. Peace Mark has to set the barrier to entry higher to increase its competitiveness and market position.

The intended acquisition of Sincere Watch if successful would result in a more balanced and diversified market for Peace Mark. With established markets like Singapore, Sincere is also expanding in high growth areas like India and Vietnam. Since approximately 27.5% of its revenue was derived from Hong Kong and China, the acquisition would bring about significant contribution to Peace Mark's existing China and Hong Kong luxury retail division. It is expected that there will not be material overlapping in businesses and no significant restructuring in operation is needed.

This combination of complementary businesses would strengthen Peace Mark's position in the luxury watch retailing industry.

In the event that the proposed transaction is completed, the current intention is for Sincere Watch to focus on the retail business of luxury timepieces in South East Asia and other new markets like India and Vietnam, while Sincere Watch HK will be concentrated on brand management and operation of its luxury retail outlets in Hong Kong. Peace Mark's focus will remain on retail expansion, especially in Mainland China.

We expect that the spill-over effect of sub-prime mortgage crisis will lead to a further slowdown in the US consumption. We will continue to shift the focus from volume manufacturing to value-added manufacturing, in particular mechanical movements.

We remain highly optimistic about the financial and operational performance for the year 2008.

FINANCIAL REVIEW

Financing and Liquidity

As at 30 September, 2007, the net gearing of the Group was 45.3% and the cash balance was at HK\$1,813.3 million. The net gearing was expressed as a

percentage of total borrowings less cash on hand to Shareholders' equity.

In June 2007, a syndicated loan amounting to HK\$1.2 billion was completed. This is a 4-year loan with the proceeds raised for the purposes of refinancing the then existing HK\$630 million syndicated loan and for future working capital of the expansion plan. The grace period is 24 months and the loan is to be repaid by semi-annual installments. The term loan portion of the loan carries an interest rate of 46 basis points over the Hibor and the revolving portion is being charged at a rate of 52 basis point over the Hibor.

Regarding the proposed acquisition mentioned above, Sincere Watch was valued at S\$530 million, equivalent to approximately HK\$2.8 billion. The consideration is to be paid by way of a combination 80% by cash and 20% in Peace Mark shares. Given a turnout of 100% acceptance rate of our proposed offer, the maximum cash payment will amount to HK\$2.24 billion. The acquisition is intended to be financed by internal cash and debts.

Capital Expenditures

Capital expenditures for the period amounted to HK\$197.3 million. This is mainly for the leasehold improvements and other fixed assets additions.

Management Discussion and Analysis

Exchange and Interest Rates Exposure

All the Group's assets, liabilities and transactions are principally denominated in Hong Kong dollar, US dollar, Swiss Franc and Renminbi. As the fluctuation of these currencies during the current period has been properly hedged, the Group believes that its exposure to exchange rate movement is limited.

The Group has also actively hedged its outstanding interest bearing borrowings. Interest rate exposure has been actively monitored and hedged.

NUMBER OF EMPLOYEES AND REMUNERATION POLICY

As at 30 September, 2007, the Group had a total of approximately 6,000 employees worldwide.

The remuneration packages for the senior executives and marketing staff are performance linked. Share and option scheme as well as bonus scheme are in place to ensure the employees and shareholders goals are congruent.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 September, 2007, the interests or short positions of the directors of the Company and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

Management Discussion and Analysis

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

Name of director	Personal interests	Family interests	Corporate interests	Other interests	Number of underlying shares held under equity derivatives	Total	Percentage of issued total share capital
Chau Cham Wong, Patrick	65,631,077	–	298,660,459	28,416,795 (note 1)	39,600,000 (note 3)	432,308,331	41.51%
Leung Yung	–	–	327,077,254	65,631,077 (note 2)	39,600,000 (note 3)	432,308,331	41.51%
Tsang Kwong Chiu, Kevin	1,598,353	–	–	–	1,600,000 (note 3)	3,198,353	0.31%
Cheng Kwan Ling	543,904	–	–	–	550,000 (note 3)	1,093,904	0.11%
Man Kwok Keung	300,000	–	–	–	550,000 (note 3)	850,000	0.08%
Tang Yat Kan	300,000	10,000 (note 4)	–	–	350,000 (note 3)	660,000	0.06%
Kwok Ping Ki, Albert	300,000	–	–	–	300,000 (note 3)	600,000	0.06%
Mak Siu Wing, Clifford	250,000	–	–	–	350,000 (note 3)	600,000	0.06%
Wong Yee Sui, Andrew	75,000	–	–	–	475,000 (note 3)	550,000	0.05%
Susan So	250,000	–	–	–	350,000 (note 3)	600,000	0.06%

Notes:

- Mr. Chau Cham Wong, Patrick deemed to be interested in 28,416,795 shares for the purposes of section 317 of the SFO, representing the deemed interests in United Success Enterprises Limited (“United Success”) in respect of its holdings pursuant to a placing and subscription completed in April 2004 (the “Placing and Top Up”). As a result of the foregoing, Mr. Chau Cham Wong, Patrick was deemed to be interested in a total of 432,308,331 shares of the Company.
- Mr. Leung Yung has 49.55% voting control of A-One Investments Limited and 100% voting control of United Success, both of which are vendors acting in concert with him in the Placing and Top Up. He was deemed to be interested in 65,631,077 shares of the Company for the purposes of section 317 of the SFO. Consequently, Mr. Leung Yung was deemed to be interested in a total of 432,308,331 shares of the Company.
- These interest represented the interest in underlying shares of the Company in respect of share options granted by the Company to these directors as beneficial owners.
- Mr. Tang Yat Kan was deemed to be interested in 10,000 shares of the Company as these shares are held by his spouse (who was not a director of the Company).

Management Discussion and Analysis

Save as disclosed above and other than certain nominee shares in subsidiaries of the Company being held by the directors in trust for the Company, as at 30 September, 2007, none of the directors of the Company or their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include any directors, employees, consultants or professional advisors, suppliers

or customers, and authorized agents of the Group. The Scheme became effective on 24 January, 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares in respect of which options may be granted under the Scheme shall not exceed 10% of the number of issued shares of the Company from time to time excluding the aggregate number of shares which were issued pursuant to the Scheme.

Under the Scheme, the Board of Directors of the Company (the "Directors") may at their discretion grant options to (i) any director (including executive directors, non-executive directors and independent non-executive directors) and employees of the Group; or (ii) any advisors, consultants, suppliers, customers of the Group as may be determined by the Directors from time to time to subscribe for the shares of the Company (the "Shares").

Options granted must be taken up within 28 days of the date of grant. The maximum number of Shares in respect of which options may be granted under the Scheme shall not exceed 10% of the issued share capital of the Company at any point in time. The maximum number of Shares in respect of which options may be granted to any individual in any

12-month period shall not exceed 1% of the Shares in issue on the last date of such 12-month period unless approval of the shareholders of the Company has been obtained in accordance with the Listing Rules.

Options may be exercised during such period (including the minimum period, if any, for which an option must be held before it can be exercised) as may be determined by the Directors (which shall be less than ten years from the date of issue of the relevant option). Options may be granted without initial payment except the payment of HK\$1 as consideration for grant of option each time. The exercise price is equal to the highest of (i) the closing price of the Shares as stated in the daily quotations sheet issued by the Stock Exchange on the date of the grant; and (ii) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of the grant.

The terms and conditions of the unexpired and unexercised share options at balance sheet date are as follows:–

Management Discussion and Analysis

	Date of grant	Vesting Period	As at 1 April, 2007	Number of share options		At as 30 September, 2007	Exercise price (Note a) HK\$	Price of Company's shares (Note b)	
				Granted during the period	Exercised during the period			At grant date of options HK\$	At exercise date of options HK\$
Director									
Chau Cham Wong, Patrick	29/12/2006	01/09/2007 – 31/03/2012	19,800,000	–	–	19,800,000	5.37	6.95	–
Leung Yung	29/12/2006	01/09/2007 – 31/03/2012	19,800,000	–	–	19,800,000	5.37	6.95	–
Tsang Kwong Chiu, Kevin	19/12/2005	19/06/2006 – 19/06/2010	3,000,000	–	(1,500,000)	1,500,000	2.175	2.175	10.63
	19/03/2007	19/09/2007 – 19/03/2008	100,000	–	–	100,000	7.55	7.55	–
Man Kwok Keung	19/12/2005	19/06/2006 – 19/06/2010	750,000	–	(250,000)	500,000	2.175	2.175	12.10
	19/03/2007	19/09/2007 – 19/03/2008	100,000	–	(50,000)	50,000	7.55	7.55	11.72
Cheng Kwan Ling	19/12/2005	19/06/2006 – 19/06/2010	750,000	–	(250,000)	500,000	2.175	2.175	12.10
	19/03/2007	19/09/2007 – 19/03/2008	100,000	–	(50,000)	50,000	7.55	7.55	11.58
Susan So	19/12/2005	19/06/2006 – 19/06/2010	500,000	–	(250,000)	250,000	2.175	2.175	12.10
	19/03/2007	19/09/2007 – 19/03/2008	100,000	–	–	100,000	7.55	7.55	–
Kwok Ping Ki, Albert	19/12/2005	19/06/2006 – 19/06/2010	375,000	–	(125,000)	250,000	2.175	2.175	12.10
	19/03/2007	19/09/2007 – 19/03/2008	100,000	–	(50,000)	50,000	7.55	7.55	11.82
Tang Yat Kan	19/12/2005	19/06/2006 – 19/06/2010	375,000	–	(125,000)	250,000	2.175	2.175	12.58
	19/03/2007	19/09/2007 – 19/03/2008	100,000	–	–	100,000	7.55	7.55	–
Wong Yee Sui, Andrew	19/12/2005	19/06/2006 – 19/06/2010	500,000	–	(125,000)	375,000	2.175	2.175	9.8
	19/03/2007	19/09/2007 – 19/03/2008	100,000	–	–	100,000	7.55	7.55	–
Mak Siu Wing, Clifford	19/12/2005	19/06/2006 – 19/06/2010	500,000	–	(250,000)	250,000	2.175	2.175	13.76
	19/03/2007	19/09/2007 – 19/03/2008	100,000	–	–	100,000	7.55	7.55	–
Employees in aggregate	19/12/2005	19/06/2006 – 19/06/2010	16,155,000	–	(5,939,000)	10,216,000	2.175	2.175	11.43
	01/09/2006	01/09/2007 – 31/08/2010	2,000,000	–	–	2,000,000	4.76	4.76	–
	08/03/2007	08/09/2007 – 08/03/2012	14,785,000	–	(4,896,000)	9,889,000	7.06	7.03	11.33
	22/08/2007	22/02/2008 – 22/08/2009	–	100,000	–	100,000	9.58	9.95	–
Others	19/12/2005	19/06/2006 – 19/06/2010	18,750,000	–	(4,687,500)	14,062,500	2.175	2.175	8.86
	08/03/2007	08/09/2007 – 08/03/2012	41,415,000	–	(29,900,000)	11,515,000	7.06	7.03	9.77
			140,255,000	100,000	(48,447,500)	91,907,500			

Management Discussion and Analysis

Notes:

(a) The exercise prices of the share options are subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

(b) The prices of the Company's shares disclosed as at the dates of the grant of the share options are the Stock Exchange closing prices on the trading days immediately prior to the dates of the grant of the options. The prices of the Company's shares disclosed as at

the dates of the exercise of the share options are the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure category.

As at 30 September, 2007, the Company had 91,907,500 (31 March, 2007: 140,255,000) share options outstanding under the Scheme, with exercise period from 19 June, 2006 to 31 March, 2012 (both dates inclusive) and exercise price from HK\$2.175 to HK\$9.58. The exercise in full of the outstanding

share options would, under the present capital structure of the Company, result in the issue of 91,907,500 additional shares of HK\$0.10 each and proceeds of approximately HK\$440,384,000 (31 March, 2007: HK\$715,584,000).

These fair values were calculated using Binominal model. The valuation of fair values for share options granted during the year were carried out by Sallmanns (Far East) Limited. The inputs used in the model were as follows:

Date of grant	Share price at date of grant	Exercise price	Expected volatility (note 6)	Risk-free interest rate (note 7)	Expected option life	Expected annual dividend yield
19 December, 2005 (note 1)	HK\$2.175	HK\$2.175	43.45%	4.16%	4.5 years	3.42%
1 September, 2006	HK\$4.76	HK\$4.76	41%	3.98%	4 years	3%
29 December, 2006 (note 2)	HK\$6.95	HK\$5.37	48%	3.70%	5 years	2.23%
8 March, 2007 (note 3)	HK\$7.03	HK\$7.06	47.3%	4.12%	5 years	1.42%
19 March, 2007 (note 4)	HK\$7.55	HK\$7.55	36.21%	3.97%	1 year	1.40%
22 August, 2007 (note 5)	HK\$9.95	HK\$9.58	44.4%	3.93%	1.5 years	2.83%

Management Discussion and Analysis

Notes:

- (1) The options are exercisable progressively and the maximum percentage of the options which may be exercised is determined in stages as follow:

	Percentage of options granted
On or after 19 June, 2006	25%
On or after 19 June, 2007	another 25%
On or after 19 June, 2008	another 25%
On or after 19 June, 2009	another 25%

- (2) (a) The options granted to Mr. Chau Cham Wong, Patrick and Mr. Leung Yung ("the Grantees") have a maximum term of five years and the maximum percentage of the options which may be exercised in the following manners:

- i. 20% of the Options (the "First Tranche of Options") will be exercisable at any time during the period commencing on 1 September, 2007 up to 31

March, 2012 provided that the performance target for the financial year ending 31 March, 2007 as set forth in paragraph (b) below shall have been met;

- ii. In addition to any Options that may have become exercisable as referred to in paragraph (a)(i) above, 20% of the Options (the "Second Tranche of Options") will be exercisable at any time during the period commencing on 1 September, 2008 up to 31 March, 2012 provided that the performance target for the financial year ending 31 March, 2008 as set forth in paragraph (b) below shall have been met;
- iii. In addition to any Options that may have become exercisable as referred to in paragraphs (a)(i) and (a)(ii) above, 20% of the Options (the "Third Tranche of Options") will be exercisable at any time during the period commencing on 1 September, 2009 up to 31 March, 2012 provided that the performance target for the financial year

ending 31 March, 2009 as set forth in paragraph (b) below shall have been met;

- iv. In addition to any Options that may have become exercisable as referred to in paragraphs (a)(i) to (a)(iii) above, 20% of the Options (the "Forth Tranche of Options") will be exercisable at any time during the period commencing on 1 September, 2010 up to 31 March, 2012 provided that the performance target for the financial year ending 31 March, 2010 as set forth in paragraph (b) below shall have been met; and
- v. In addition to any Options that may have become exercisable as referred to in paragraphs (a)(i) to (a)(iv) above, 20% of the Options (the "Fifth Tranche of Options") will be exercisable at any time during the period commencing on 1 September, 2011 up to 31 March, 2012 provided that the performance target for the financial year ending 31 March, 2011 as set forth in paragraph (b) below shall have been met;

Management Discussion and Analysis

- (b) The Options may only be exercised by the Grantees if the following performance targets are met for the following financial years:

Financial year ending	Performance target
31 March, 2007	The First Tranche of Options could only be exercised if the Net Profit for such financial year is not less than 125% of the Net Profit for the year ended 31 March, 2006
31 March, 2008	The Second Tranche of Options could only be exercised if the Net Profit for such financial year is not less than 150% of the Net Profit for the year ended 31 March, 2006
31 March, 2009	The Third Tranche of Options could only be exercised if the Net Profit for such financial year is not less than 180% of the Net Profit for the year ended 31 March, 2006
31 March, 2010	The Forth Tranche of Options could only be exercised if the Net Profit for such financial year is not less than 207% of the Net Profit for the year ended 31 March, 2006
31 March, 2011	The Fifth Tranche of Options could only be exercised if the Net Profit for such financial year is not less than 238% of the Net Profit for the year ended 31 March, 2006

The Options granted to Mr. Chau Cham Wong, Patrick and Mr. Leung Yung will exceed 1% of the issued share capital of the Company within a 12-month period. Pursuant to note to Rule 17.03(4) of the Listing Rules, where any further grant of options to a participant would result in the Shares issued or to be issued upon exercise of all options granted and to be granted to such person in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the relevant class of securities in issue, such further grant was approved by the Independent Shareholders in general meeting. It is proposed that voting in respect of the Independent Shareholders' approval to be sought at the Special General Meeting shall be taken by poll with Mr. Chau Cham Wong, Patrick, Mr. Leung Yung and

their respective associates abstaining from voting, and all other connected persons of the Company abstaining from voting in favour, at the Special General Meeting.

- (3) The options are exercisable progressively and the maximum percentage of the options which may be exercised is determined in stages as follow:

	Percentage of options granted
On or after 8 September, 2007	25%
On or after 8 September, 2008	another 25%
On or after 8 September, 2009	another 25%
On or after 8 September, 2010	another 25%

Out of 41,415,000 options granted on 8 March, 2007, 29,900,000 of which the terms in relation to the exercise period were changed from 4 years to one year pursuant to the requirement of the option scheme.

- (4) The options are exercisable progressively and the maximum percentage of the options which may be exercised is determined in stages as follow:

	Percentage of options granted
On or after 19 September, 2007	50%
On or after 19 March, 2008	another 50%

Management Discussion and Analysis

- (5) The options are exercisable progressively and the maximum percentage of the options which may be exercised is determined in stages as follow:

	Percentage of options granted
On or after 22 February, 2008	50%
On or after 22 August, 2008	another 50%

- (6) Expected volatility was determined by using historical volatility of the price return of the ordinary shares of the Company.
- (7) The risk-free interest rate was based on the yield of Exchange Fund Notes issued by the Hong Kong Monetary Authority.

The estimated fair value of HK\$46,960,000 (30 September, 2006: HK\$3,931,000) with respect to share options granted to directors, employees and other eligible persons were charged to the income statement during the period.

SHARE INCENTIVE SCHEME

On 31 March, 2006, the Company adopted a share incentive scheme (the "2006 Scheme") which will enable selected eligible persons to purchase shares of the Company (the "Shares") at a 5% discount to the market price. The selected eligible persons have the option of paying for their Shares in one lump sum, or by monthly installments.

Where eligible persons choose the latter option, they will pay an additional finance charge to cover the Company's finance costs.

The Group has obtained a loan in the amount up to HK\$150 million from a bank for the purpose of financing the operation of the 2006 Scheme. Shares to be purchased pursuant to the 2006 Scheme will be purchased on behalf of the eligible persons by the custodian. The custodian will hold the Shares on behalf of the eligible persons until they are permitted under the rules of the Scheme to dispose of their Shares.

On 20 April, 2007, the Company adopted a share incentive scheme (the "2007 Scheme") which will enable selected eligible persons to purchase shares of the Company (the "Shares") at a 5% discount to the market price. The selected eligible persons have the option of paying for their Shares in one lump sum, or by monthly installments. Where eligible persons choose the latter option, they will pay an additional finance charge to cover the Company's finance costs.

Eligible persons will not be able to dispose Shares purchased under the Scheme immediately following their purchase. Those selected eligible persons who opt to pay for their Shares in one lump sum will be able to dispose their Shares after one year,

while those who opt to pay for their Shares in installments will be able to dispose their Shares over a period of time commencing after one year and ending when they make their final installments payment.

The Group has obtained a loan in the amount up to HK\$350 million from a bank for the purpose of financing the operation of the 2007 Scheme. Shares to be purchased pursuant to the 2007 Scheme will be purchased on behalf of the eligible persons by the custodian. The custodian will hold the Shares on behalf of the eligible persons until they are permitted under the rules of the 2007 Scheme to dispose of their Shares.

The aggregate number of Shares to be offered under the 2007 Scheme, the 2006 Scheme and a share incentive scheme adopted by the Company on 13 December, 2004 shall at all times be less than 5% of the issued share capital of the Company from time to time and the aggregate acquisition cost of all Shares purchased under the 2007 Scheme shall not exceed HK\$350 million.

For the year ended 30 September 2007, the discount expenses incurred by the Group amounted to HK\$119,700 (30 September, 2006: HK\$7,478,375) approximately.

Management Discussion and Analysis

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 September, 2007, the following persons (other than the

directors of the Company) were substantial shareholders of the Company or had interests or short positions in the shares and underlying shares of the Company which would

fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of shareholder	Note	Total	Percentage of issued share capital
United Success Enterprises Limited ("United Success")	a	432,308,331	41.51%
A-ONE INVESTMENTS LIMITED ("A-ONE")	b	432,308,331	41.51%
Lloyd George Investment Management (Bermuda) Ltd ("Lloyd George")	c	53,792,000	5.22%

Notes:

a. United Success was wholly-owned by Mr. Leung Yung. United Success was one of the parties acting in concert under the Placing and Top Up and so was deemed to be interested in 432,308,331 shares of the Company pursuant to section 317 of the SFO.

b. Mr. Chau Cham Wong, Patrick controlled 50.45% and Mr. Leung Yung controlled 49.55% of A-ONE respectively. A-ONE was one of the parties acting in concert under the Placing and Top Up, and was deemed to be interested in 432,308,331 shares of the Company pursuant to section 317 of the SFO.

c. Lloyd George Investment Management (Bermuda) Ltd was interested in 53,792,000 shares of the Company as investment manager.

Save as disclosed above, the Company has not been notified of any other person (other than the directors of the Company) who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

DISCLOSURE WITH RULE 13.18 OF CHAPTER 13 OF THE LISTING RULES

(1) In compliance with the Rule 13.18 of the Listing Rules, the following disclosures are included in respect of a facility agreement dated 5 June, 2006 relating to a term loan and revolving credit facility in an aggregate amount of HK\$600 million (the "Facility") made available to the Company (the "Facility Agreement").

Management Discussion and Analysis

The Facility Agreement contains certain events of default including:

- a. if Mr. Chau Cham Wong, Patrick ceases at any time during the subsistence of the Facility Agreement to be the Chairman of the Company and the Group; and
- b. if Mr. Chau Cham Wong, Patrick and Mr. Leung Yung collectively are no longer the single largest shareholder of the Company, holding beneficially (direct or indirect) more than 30% of the voting share capital of the Company; or no longer have management control of the Company.

- (2) In compliance with the Rule 13.18 of the Listing Rules, the following disclosures are included in respect of a facility agreement dated 20 December, 2006 relating to a term loan facility in an aggregate amount of RMB380,000,000 (the "Facility") made available to a subsidiary (the "Facility Agreement").

The Guarantee contains certain undertakings, which when breached will constitute an event of default under the Facility Agreement. One of the undertakings is for the Company to ensure that, unless and until the Borrower and the Guarantors have fully discharged their respective

obligations under the Finance Documents:

- (a) Mr. Chau Cham Wong, Patrick will serve as the chairman of the board of directors of the Company; and
- (b) Mr. Chau Cham Wong, Patrick and Mr. Leung Yung will collectively remain as the single largest shareholder of the Company and its subsidiaries (the "Group"), and will directly and indirectly hold more than 35% of the equity interests in the Borrower and maintain control of the board of directors of the Borrower.

On and at any time after the occurrence of an event of default under the Facility Agreement, Oversea-Chinese Banking Corporations Limited, Hong Kong Branch (the "Agent") may, and shall if so directed by the majority lenders declare that all or part of the loan made under the Facility, together with accrued interest, and all other amounts accrued or outstanding under the Facility Agreement be immediately due and payable.

- (3) In compliance with the Rule 13.18 of the Listing Rules, the following disclosures are included in respect of a facility agreement dated 22 June, 2007 relating to

a term loan and revolving credit facility in an aggregate amount of HK\$1,200,000,000 (the "Facility") made available to the Company (the "Facility Agreement").

The Facility Agreement contains certain events of default including:

- (a) if Mr. Chau Cham Wong, Patrick ceases at any time during the subsistence of the Facility Agreement to be the Chairman of the Company and the Group; and
- (b) if Mr. Chau Cham Wong, Patrick and Mr. Leung Yung collectively are no longer the single largest shareholder of the Company, holding beneficially (directly or indirectly) more than 30% of the voting share capital of the Company; or no longer control the board of directors of the Company.

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

Management Discussion and Analysis

PURCHASE, SALES OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's shares during the period.

INTERIM DIVIDEND

The Directors have resolved to declare an interim dividend of 5.0 HK cents for the six months ended 30 September, 2007 (2006: 4.1 HK cents) payable on 17 March, 2008, to shareholders whose names appear on the register of members of the Company on Friday, 25 January, 2008. The dividend per share represents a payout ratio of 30.2%.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 23 January, 2008 to Friday, 25 January, 2008, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all share transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrars in Hong Kong, Tricor Secretaries Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on Tuesday, 22 January, 2008.

CORPORATE GOVERNANCE

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for the six months ended 30 September, 2007, in compliance with the code provisions of the Code on Corporate Governance Practice in Appendix 14 of the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as the Company's code of conduct and rules governing dealings by all directors in the securities of the Company. Having made specific enquiry of all directors of the Company, they all confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30 September, 2007.

AUDIT COMMITTEE

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

The Committee met with the senior management and the internal and external auditors and reviewed the accounting principles and practices adopted by the Group and other financial reporting matters, ensure the completeness, accuracy and fairness of the financial statements of the Company for the six months ended 30 September, 2007, discuss the effectiveness of the systems of internal control throughout the Group and most importantly, review all significant business affairs managed by the executive directors in particular on connected transactions.

PUBLICATION OF INTERIM REPORT ON THE STOCK EXCHANGE'S WEBSITE

The Interim report of the Company containing all information required by the Listing Rules will be published on the Company's website www.peacemark.com and the website of The Stock Exchange of Hong Kong Limited (www.hkex.com.hk) and dispatched to shareholders on or before 31 December, 2007.

On behalf of the Board
Chau Cham Wong, Patrick
Chairman

Hong Kong, 7 December, 2007

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2007