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Peace Mark (Holdings) Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 0304)

DISCLOSEABLE AND CONNECTED TRANSACTION INVOLVING GRANT OF CALL OPTION

On 31 March 2006, PM China, Tourneau Investment and Beat Time formed a joint venture company, Peace Mark Tourneau, to engage in the supply, wholesale, retail and distribution of luxury-brand timepieces for the high-end market in Mainland China, Hong Kong, Macau and Taiwan. Peace Mark Tourneau is owned by PM China, Tourneau Investment and Beat Time as to 65%, 25% and 10% respectively. Pursuant to the First Option Agreement entered into on the same day, PM China has granted the First Option to Tourneau Investment to acquire from PM China an equivalent of 14% interest in Peace Mark Tourneau at par value during the first 2 years from 31 March 2006.

On 2 May 2006, PM China, Tourneau Investment and Peace Mark Tourneau entered into the Extended Option Agreement whereby PM China has granted the Extended Option to Tourneau Investment to acquire from it a 14% interest in Peace Mark Tourneau at a fair value of such capital, subject to the Cap, at any time after 31 March 2008. Exercise of the Extended Option is subject to certain conditions as detailed below.

The transactions contemplated under the Extended Option Agreement constitute a discloseable and connected transaction, and hence are subject to the requirements of reporting, announcement and independent Shareholders' approval under the Listing Rules.

A special general meeting will be convened and held by the Company to consider and, if thought fit, approve the transactions contemplated under the Extended Option Agreement. An independent board committee will be established to advise the independent Shareholders regarding the terms of the Extended Option Agreement. An independent financial adviser will be appointed to advise the independent board committee and the independent Shareholders in this regard.

On 31 March 2006, PM China, Tourneau Investment and Beat Time formed a joint venture company, Peace Mark Tourneau, to engage in the supply, wholesale, retail and distribution of luxury-brand timepieces for the high-end market in Mainland China, Hong Kong, Macau and Taiwan. Peace Mark Tourneau is owned by PM China, Tourneau Investment and Beat Time as to 65%, 25% and 10% respectively. Pursuant to the First Option Agreement entered into on the same day, PM China has granted the First Option to Tourneau Investment whereby Tourneau Investment may acquire from PM China an equivalent of 14% interest in Peace Mark Tourneau at par value during the first 2 years from 31 March 2006. On 2 May 2006, the Extended Option Agreement was entered into whereby PM China has agreed to grant the Extended Option to Tourneau Investment according to the following terms:

EXTENDED OPTION AGREEMENT DATED 2 MAY 2006

Parties

Grantor: PM China
Grantee: Tourneau Investment
Subject company: Peace Mark Tourneau

Option

In consideration of the payment of US\$1.00 by Tourneau Investment to PM China, PM China has, subject to the exercise conditions stated below, irrevocably granted a non-transferable and one-off call option to Tourneau Investment to purchase from it all the Call Shares (but not part thereof) at any time after 31 March 2008 for so long as Tourneau Investment remains as a shareholder of Peace Mark Tourneau holding not less than 25% of the issued shares therein irrespective of its classes.

Exercise price

The Extended Option shall be exercised at a fair value to be arrived at after negotiations between PM China and Tourneau Investment at least 3 days before the Completion Date based on the total tangible and intangible assets (including goodwill) of Peace Mark Tourneau minus all its liabilities (excluding shareholders' capital contributions and reserves) and provisions for liabilities (including provisions for taxes and preferential dividends) (the "Formula") as at the date of exercise of the Extended Option.

In the event that PM China and Tourneau Investment fail to reach an agreement on the fair value of the Call Shares as aforesaid, both parties shall mutually agree on a new date for Completion and jointly appoint an audit firm to their mutual agreement (failing which Tourneau Investment may appoint one of the four nominated international firms of auditors) on or before the Completion Date to audit in accordance with the generally accepted accounting principles in Hong Kong and come up with a fair value of the Call Shares as at the Completion Date based on the Formula.

In any case, the fair value at which the Extended Option is exercised shall not exceed the Cap of HK\$700 million. The Cap of HK\$700 million has been established based on the market potential of the business and negotiated between the parties on an arm's length basis and reflects the parties' confidence in the potential of establishing a business in the luxury watch retailing business in the Greater China region. In the event that the exercise price determined by the Formula exceeds the Cap, the exercise of the Extended Option shall be subject to further agreement between the parties and compliance with the disclosure and shareholders' approval requirements as stipulated under the Listing Rules at the time, if required. Such agreement may or may not be reached between the parties. If the exercise price exceeds the Cap and the parties could not agree on such price, the Extended Option will not be exercised.

In exercising the Extended Option, a premium will be incorporated into the Formula as the net assets of Peace Mark Tourneau will include an element of intangible assets, being the goodwill of the business of Peace Mark Tourneau. The Directors consider that the goodwill represents the premium over the net tangible assets of Peace Mark Tourneau and is expected to be determined taking into account a comparable premium for entities in the watch retailing industry internationally by reference to relevant industry benchmarks and comparable companies.

Exercise conditions

PM China shall not be obliged to undertake its obligation under the Extended Option Agreement in respect of the grant of the Extended Option to Tourneau Investment if any of the exercise conditions below is not fulfilled by Tourneau Investment to the satisfaction of PM China:

- (i) Tourneau Investment at the time of exercise of the Extended Option holds in aggregate not more than 25% of the issued shares in Peace Mark Tourneau irrespective of its classes;
- (ii) Tourneau Investment shall have returned to PM China for cancellation all other call option(s), including the First Option if not exercised, previously granted by PM China to Tourneau Investment in respect of the shares in Peace Mark Tourneau;
- (iii) after the exercise of the Extended Option, Tourneau Investment shall not hold in the aggregate more than 39% of the issued shares in Peace Mark Tourneau irrespective of its classes; and
- (iv) the Extended Option may not be exercised by Tourneau Investment during the first 2 years from 31 March 2006.

The Extended Option shall lapse automatically if (i) Tourneau Investment at any time holds less than 25% of the issued shares in Peace Mark Tourneau irrespective of its classes; or (ii) any of the call option(s) previously granted by PM China to Tourneau Investment in respect of the shares in Peace Mark Tourneau has been exercised by Tourneau Investment. The Company intends to continue holding Peace Mark Tourneau as its subsidiary and in the event that either the First Option or the Extended Option is exercised, the Group will maintain a 51% controlling interest therein.

Peace Mark Tourneau is a party to the Extended Option Agreement as its consent is required pursuant to the Extended Option Agreement in the case of the transfer of the Call Shares.

Completion

Completion shall take place on the Completion Date, or such a later date mutually agreed by PM China and Tourneau Investment in the event that an audit firm needs to be appointed to audit and come up with a fair value of the Call Shares as at the Completion Date based on the Formula.

REASONS FOR THE TRANSACTION

The Group is a vertically integrated global timepiece company with manufacturing facilities located in Mainland China, Hong Kong and Switzerland. The Company is a global leader in its core mass-market and mid-market timepiece product segments. Core markets are in China, Americas, Europe and (non-China) Asia. The Company is the leading distributor and retailer of international mid-range fashion brands in China.

On 31 March 2006, PM China, Tourneau Investment and Beat Time formed a joint venture company, Peace Mark Tourneau, to engage in the supply, wholesale, retail and distribution of luxury-brand timepieces for the high-end market in Mainland China, Hong Kong, Macau and Taiwan. As at the date hereof, Peace Mark Tourneau is owned by PM China, Tourneau Investment and Beat Time in the proportion of 65%, 25% and 10%, respectively.

On the same day, PM China entered into the First Option Agreement with Tourneau Investment and Peace Mark Tourneau whereby PM China has irrevocably and unconditionally granted a non-transferable one-off call option to Tourneau Investment to purchase from it such number of fully-paid Class A Shares at par value so that Tourneau Investment shall hold an additional 14% of the issued share capital of Peace Mark Tourneau. The First Option may be exercised by Tourneau Investment at any time during the first 2 years from 31 March 2006 for so long as Tourneau Investment remains as a shareholder of Peace Mark Tourneau holding in aggregate not less than 25% of the issued shares therein irrespective of its classes.

The management of Peace Mark Tourneau consider that Greater China luxury-brand timepiece markets have significant potential and believe that the combination of the Group's knowledge, experience as well as the distribution and servicing network in the Greater China region together with Tourneau's experience in world class operations in the areas of marketing, logistics, distribution and retail management, along with their established relationships with major luxury brand owners, will create a leading retail operator in the Greater China region for luxury-brand timepiece products. Peace Mark Tourneau targets to open 30 stores in the next 5 years.

The Directors consider that the First Option Agreement and the Extended Option Agreement provide a mechanism whereby Tourneau Investment will have such flexibility to acquire a further stake in Peace Mark Tourneau while the Group maintains a controlling interest therein, so as to incentivise Tourneau Investment to commit and contribute to the long term development of Peace Mark Tourneau and work with the Group to build it into a major retail operation in the Greater China region. Whilst the exercise price of the First Option is determined on a cost basis, the exercise price for the Extended Option is structured on a fair value basis. The rationale for this approach is that in the first two years, the development of Peace Mark Tourneau is still in its early stage and the exercise price should be determined by reference to the amount of funds invested by Tourneau Investment. On the other hand, after the initial two year period, the parties are confident that the businesses of Peace Mark Tourneau will be established and goodwill for the business will be generated. Accordingly, it is therefore important for the exercise price after the first two years to be established taking into account the goodwill generated. The Directors consider that the terms of the First Option Agreement and the Extended Option Agreement (including the Cap) are fair and reasonable in so far as the Company and the Shareholders are concerned and the entering into thereof is in the interests of the Company and its Shareholders as a whole.

COMPLIANCE WITH THE LISTING RULES

Pursuant to the Listing Rules, Tourneau Investment is a substantial shareholder of Peace Mark Tourneau, which is a non wholly-owned subsidiary of the Company, and Tourneau Investment therefore constitutes a connected person of the Company. The transactions contemplated under the Extended Option Agreement constitute a discloseable and connected transaction, and hence are subject to the requirements of reporting, announcement and independent Shareholders' approval under the Listing Rules. Further, in the event that the Extended Option is exercised or expired or Tourneau Investment notifies PM China that the Extended Option will not be exercised, the Company will make an announcement regarding such event and ensure compliance with the relevant Listing Rules in relation thereto, in particular, Rules 14.76(1) and 14A.71 of the Listing Rules regarding compliance with the additional requirements of the Listing Rules should the exercise of the Extended Option constitute a higher classification of notifiable transaction.

GENERAL

A special general meeting will be convened and held by the Company to consider and, if thought fit, approve the transactions contemplated under the Extended Option Agreement, at which Tourneau Investment and its associates will abstain from voting. An independent board committee will be established to advise the independent Shareholders regarding the terms of the Extended Option Agreement. An independent financial adviser will be appointed to advise the independent board committee and the independent Shareholders in this regard.

A circular containing, among others, information regarding the Extended Option under the Extended Option Agreement and other related matters, advice of the independent board committee and the independent financial adviser, and the notice of the special general meeting will be despatched to the Shareholders as soon as practicable.

DEFINITIONS

“Beat Time”	Beat Time Group Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of International Watch Group
“Board”	the board of Directors
“Call Shares”	such number of fully-paid Class A Shares up to in the aggregate 14% of the issued share capital in Peace Mark Tourneau irrespective of its classes
“Cap”	HK\$700 million, being the maximum fair value of the Call Shares at which the Extended Option is exercised
“Class A Share(s)”	class “A” ordinary share(s) of US\$0.80 each in the share capital of Peace Mark Tourneau
“Company”	Peace Mark (Holdings) Limited, a company incorporated in Bermuda with limited liability, the shares in which are listed on the Main Board of the Stock Exchange
“Completion”	completion of the exercise of the Extended Option
“Completion Date”	the 14th business day after the date of exercise of the Extended Option
“connected persons”	has the same meaning as defined in the Listing Rules
“Directors”	the directors of the Company
“Extended Option”	the call option granted by PM China to Tourneau Investment under the Extended Option Agreement pursuant to which Tourneau Investment shall be entitled to purchase from PM China the Call Shares at any time after 31 March 2008 (subject to the terms set out therein)
“Extended Option Agreement”	the agreement dated 2 May 2006 entered into among PM China, Tourneau Investment and Peace Mark Tourneau in relation to the granting of the Extended Option by PM China to Tourneau Investment
“First Option”	the call option granted by PM China to Tourneau Investment under the First Option Agreement pursuant to which Tourneau Investment shall be entitled to purchase from PM China such number of fully-paid Class A Shares at par value so that Tourneau Investment shall hold an additional 14% of the issued share capital of Peace Mark Tourneau at any time during the first 2 years from 31 March 2006

“First Option Agreement”	the agreement dated 31 March 2006 entered into among PM China, Tourneau Investment and Peace Mark Tourneau in relation to the granting of the First Option by PM China to Tourneau Investment
“Greater China”	including the whole of Mainland China, Hong Kong, Taiwan and Macau
“Group”	the Company and its subsidiaries
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Peace Mark Tourneau”	Peace Mark Tourneau (Holdings) Limited, a company incorporated in Hong Kong with limited liability and owned as to 65% by PM China, as to 25% by Tourneau Investment and as to 10% by Beat Time
“PM China”	Peace Mark China Investment Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
“Shareholders”	holders of shares in the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholders”	has the same meaning as defined in the Listing Rules
“Tourneau”	Tourneau, Inc., a New York corporation
“Tourneau Investment”	Tourneau Investment LLC, a limited liability company formed in and under the laws of the State of Delaware, United States and a wholly-owned subsidiary of Tourneau
“US\$”	United States dollar
“%”	per cent.

As at the date of this announcement, there are five executive Directors, namely, Mr. Chau Cham Wong, Patrick, Mr. Leung Yung, Mr. Tsang Kwong Chiu, Kevin, Mr. Man Kwok Keung, Mr. Cheng Kwan Ling and five independent non-executive Directors, namely, Ms. Susan So, Mr. Kwok Ping Ki, Albert, Mr. Tang Yat Kan, Mr. Wong Yee Sui, Andrew and Mr. Mak Siu Wing, Clifford.

On behalf of the Board
Peace Mark (Holdings) Limited
Chau Cham Wong, Patrick
Chairman

Hong Kong, 2 May 2006

Please also refer to the published version of this announcement in SCMP-Classified.