Peace Mark (Holdings) Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 304)

(website: http://www.peacemark.com)

ANNOUNCEMENT OF FINAL RESULTS
FOR THE YEAR ENDED 31ST MARCH, 2007

HIGHLIGHTS

	2007 **HK$'000**	2006 HK$'000	*Changes in %*
Turnover	**3,040,514**	2,241,771	35.6%
Profit attributable to equity holders	**300,276**	200,619	49.7%
Interim Dividend Per Share	**4.1 cents**	3.0 cents	36.7%
Final Dividend Per Share	**6.2 cents**	4.3 cents	44.2%
Full Year Dividend Per Share	**10.3 cents**	7.3 cents	41.1%
Return on Equity	**17.8%**	15.0%	2.8 pts

The board of directors (the "Directors") is pleased to announce the consolidated results of Peace Mark (Holdings) Limited (the "Company") and its subsidiaries (together with the Company hereinafter referred to as "Peace Mark" or the "Group") for the year ended 31st March, 2007.

CONSOLIDATED INCOME STATEMENT

For the year ended 31st March, 2007

	Note	**2007** **HK$'000**	2006 HK$'000
Turnover	2	**3,040,514**	2,241,771
Cost of sales		**(2,055,700)**	(1,544,183)
Gross profit		**984,814**	697,588
Other revenue		**132,846**	80,444
Selling and distribution expenses		**(363,782)**	(261,145)
Administrative and general expenses		**(283,896)**	(185,650)
Other operating expenses		**(13,644)**	(17,806)
Profit from operations		**456,338**	313,431
Share of (loss) profit of associates		**(9,512)**	2,974
Share of loss of a jointly controlled entity		**(2,027)**	(2,134)
Finance costs	4	**(111,880)**	(60,346)
Profit before taxation	2, 3	**332,919**	253,925
Taxation	5	**(28,316)**	(37,924)
Profit for the year		**304,603**	216,001
Attributable to:			
Equity holders of the Company		**300,276**	200,619
Minority interests		**4,327**	15,382
		304,603	216,001
Dividends	6	**102,727**	69,572
Earnings per share for profit attributable to equity holders of the Company during the year	7		
Basic (HK cents)		**30.28**	22.13
Diluted (HK cents)		**29.54**	22.03

CONSOLIDATED BALANCE SHEET

As at 31st March, 2007

	Note	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment		**518,010**	401,288
Freehold land and interest in leasehold land		**7,961**	5,461
Intangible assets		**239,289**	196,143
Interest in associates		**87,300**	134,533
Interest in a jointly controlled entity		**15,994**	13,776
Other financial assets		**181,057**	44,941
Deferred tax assets		**9,566**	9,224
		1,059,177	805,366
Current assets			
Inventories		**1,015,963**	654,417
Derivative financial instruments		**46,282**	17,119
Other financial assets at fair value through profit or loss		**6,585**	9,364
Trade receivables	*8*	**613,776**	318,849
Trade deposits and other receivables		**266,718**	280,783
Cash and bank balances		**1,460,091**	1,185,789
		3,409,415	2,466,321
Current liabilities			
Trade and other payables	*9*	**294,789**	385,057
Derivative financial instruments		**24,023**	9,932
Interest-bearing borrowings		**988,231**	547,240
Obligations under finance leases		**200**	1,195
Tax payable		**33,878**	37,853
		1,341,121	981,277
Net current assets		**2,068,294**	1,485,044
Total assets less current liabilities		**3,127,471**	2,290,410
Non-current liabilities			
Interest-bearing borrowings		**1,077,727**	609,914
Obligations under finance leases		**142**	206
Deferred tax liabilities		**13,064**	11,392
		1,090,933	621,512
Net assets		**2,036,538**	1,668,898
Capital and reserves			
Share capital		**99,308**	98,974
Reserves		**1,707,171**	1,462,351
Equity attributable to equity holders of the Company		**1,806,479**	1,561,325
Minority interests		**230,059**	107,573
Total equity		**2,036,538**	1,668,898

Notes

1. Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs", which also include Hong Kong Accounting Standard ("HKASs") and Interpretations ("HK-Ints")) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the available-for-sale financial assets, financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

(a) Standards, amendments and interpretations effective in 2006 but not relevant for the Group's operations:

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1st April 2006 but are not relevant to or have no significant impact on the Group's operations.

- HKAS 19 (Amendment) – Actuarial Gains and Losses, Group Plans and Disclosures
- HKAS 21 (Amendment) – Net Investment in a Foreign Operation
- HKAS 39 (Amendment) – Cash Flow Hedge Accounting of Forecast Intragroup Transactions
- HKAS 39 (Amendment) – The Fair Value Option
- HKAS 39 & HKFRS 4 (Amendment) – Financial Guarantee Contracts
- HKFRS 6 – Exploration for and Evaluation of Mineral Resources
- HKFRS 1 (Amendment) & HKFRS 6 (Amendment) – First-time Adoption of International Financial Reporting Standards Exploration for and Evaluation of Mineral Resources
- HKFRS-Int 4 – Determining whether an Arrangement Contains a Lease
- HKFRS-Int 5 – Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- HK(IFRIC)-Int 6 – Liabilities arising from Participating in a Specific Market, Waste Electrical and Electronic Equipment
- HK(IFRIC)-Int 7 – Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies

(b) Standards and interpretations that are not yet effective and have not been early adopted by the Group

The following standards and interpretations have been published and are mandatory for accounting periods beginning on or after 1st May 2006 or later periods that the Group has not been early adopted:

– HKFRS 7, Financial Instruments: Disclosures (effective for annual periods beginning on or after 1st January 2007). HKAS 1, Amendments to capital disclosures (effective for annual periods beginning on or after 1st January 2007). The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from 1st April 2007.

– HKFRS 8, Operating Segments (effective for annual periods beginning on or after 1st January 2009). HKFRS 8 supersedes HKAS 14, Segment Reporting, which requires segments to be reported based on the Group's internal reporting pattern as they represent components of the Group regularly reviewed by management. Management considers the adoption of HKFRS 8 will have no significant impact on the segment disclosures of the Group. The Group will apply HKFRS 8 from 1st April 2009.

– HK(IFRIC)-Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1st May 2006). HK(IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of HKRFS 2. The Group will apply HK(IFRIC)-Int 8 from 1st April 2007, but it is not expected to have any impact on the Group's financial statements;

– HK(IFRIC)-Int 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1st June 2006). HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Group will apply HK(IFRIC)-Int 9 from 1st April 2007;

– HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1st November 2006). HK(IFRIC)-Int 10 prohibits the impairment losses recognized in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Int 10 from 1st April 2007, but it is not expected to have any impact on the Group's financial statements;

– HK(IFRIC)-Int 11, HKFRS 2 – Group and Treasury Share Transfer (effective for accounting periods beginning on or after 1st March 2007). This interpretation addresses how certain share-based payment arrangements between group companies should be accounted for in the financial statements. The Group will apply HK(IFRIC)-Int 11 from 1st April 2008 but it is not expected to have any significant impact on the Group's financial statements; and

– HK(IFRIC)-Int 12, Service Concession Arrangements (effective for accounting periods beginning on or after 1st January 2008). This interpretation sets out general principles on recognising and measuring the obligation and related rights in service concession arrangements. The Group has no service concession arrangements and management considers the interpretation is not relevant to the Group.

The adoption of the above amendments to standards and interpretations did not have any significant impact on the financial statements of the Group.

2. 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 manufacturing, trading, distributing, retailing and related service income of timepiece products.

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

	2007		2006	
	Turnover	**Segment Results**	Turnover	Segment Results
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000* (restated)
The Americas	**823,139**	**123,329**	884,780	135,060
Asia (excluding China)	**336,356**	**33,263**	400,126	42,036
Europe	**337,249**	**32,397**	322,027	33,143
China and Hong Kong	**1,543,770**	**276,135**	634,838	124,068
	3,040,514	**465,124**	2,241,771	334,307
Unallocated expenses		**(70,649)**		(70,905)
Gain on disposal of subsidiaries		**10,054**		15,123
Impairment loss of intangible assets		**(12,484)**		(7,133)
Finance costs net of interest income		**(47,587)**		(18,307)
Share of (loss) profit of associates		**(9,512)**		2,974
Share of loss of a jointly controlled entity		**(2,027)**		(2,134)
Profit before taxation		**332,919**		253,925

3. Profit before taxation

	2007	2006
	HK$'000	*HK$'000*
Profit from operations is arrived at after charging/(crediting):		
Auditors' remuneration	**3,275**	2,354
Depreciation of property, plant and equipment	**70,508**	70,802
Amortization of land lease premium	**141**	103
Impairment loss of intangible assets	**12,484**	7,133
Loss on write-down of inventories to net realizable value	**1,217**	8,552
Loss on disposal of property, plant and equipment	**2,981**	1,203
Staff costs, including directors' emoluments		
– Wages, salaries and benefits in kind	**177,532**	136,611
– Pension costs: defined contribution plans, net of forfeited contributions	**4,278**	3,223
– Share option expense	**14,804**	2,093
Minimum lease payments in respect of properties under operating leases	**70,650**	27,853
Provision for impairment loss on trade receivables	**120**	553
Interest income	**(64,293)**	(42,039)
Gain on disposal of subsidiaries	**(10,054)**	(15,123)

4. Finance costs

	2007	2006
	HK$'000	*HK$'000*
Interest on:		
Term loans, syndicated loans and bank overdrafts wholly repayable within five years	**111,669**	60,040
Obligations under finance leases	**211**	306
	111,880	60,346

5. Taxation

Income tax in the consolidated income statement represents:

	2007	2006
	HK$'000	*HK$'000*
Current profits tax		
Hong Kong profits tax	**37,197**	36,940
The People's Republic of China (the "PRC")	**800**	556
Overseas	**1,038**	997
Over provision in prior years	**(12,049)**	–
Deferred taxation		
Origination and reversal of temporary differences	**1,330**	(569)
	28,316	37,924

Hong Kong profit tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profits for the year. Taxation on other overseas profit for the year 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.

6. Dividends

	2007	2006
	HK$'000	*HK$'000*
Interim dividend paid of HK4.1 cents per share (2006: HK3.0 cents)	**40,704**	26,992
Final dividend proposed of HK6.2 cents per share (2006: HK4.3 cents)	**62,023**	42,580
	102,727	69,572

A final dividend in respect of 2007 of HK6.2 cents per share amounting to approximately HK$62,023,000 was proposed by the Boards of Directors after the balance sheet date. The proposed dividend has not been accounted for as a liability until it is approved at the forthcoming Annual General Meeting.

7. Earnings per share

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

	2007	2006
Profit attributable to equity holders of the Company (in HK$'000)	**300,276**	200,619
Weighted average number of shares for the purpose of basic earnings per share calculation (in '000)	**991,796**	906,636
Potential dilutive shares – share options (in '000)	**24,548**	3,960
Weighted average number of shares for the purpose of diluted earnings per share calculation (in '000)	**1,016,344**	910,596
Basic earnings per share (HK cents)	**30.28**	22.13
Diluted earnings per share (HK cents)	**29.54**	22.03

8. Trade receivables

An aging analysis of trade receivables is as follows:

	2007	2006
	HK$'000	*HK$'000*
Not yet due	**369,553**	168,203
Overdue within 90 days	**221,559**	141,189
Overdue between 91 to 180 days	**14,739**	9,457
Overdue over 180 days	**7,925**	–
	613,776	318,849

Credit policy:

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.

9. Trade and other payables

An aging analysis of trade payables is as follows:

	2007	2006
	HK$'000	*HK$'000*
Trade payables:		
Not yet due	**67,054**	56,722
Overdue within 90 days	**42,300**	39,053
Overdue between 91 to 180 days	**16,334**	8,355
Overdue over 180 days	**24,806**	9,506
	150,494	113,636
Accruals and other payables	**144,295**	271,421
	294,789	385,057

MANAGEMENT DISCUSSION AND ANALYSIS

China Retail

The retail landscape in China, in particular the fashion and the luxury segments, has experienced significant changes in the past few years. China retail sales in the luxury and fashion segments have been rising at the fastest pace ever seen as increasing incomes of the newly wealthy and burgeoning middle class spur spending. Customers have been willing to spend on the fashion and luxury items to conform to international lifestyle standard.

Luxury Watch Market

Today the development of the luxury market in China is just at the beginning and China will be a significant market for luxury products in the coming years growing at a rate of at least 20% a year. Various sources have estimated that China will consume about 30% of the world's total luxury goods by 2015. Brands have been rushing into the China market in the recent past. Those that have established the foothold continue to compete for a larger market share. Brands, other than building their brand equity, have demonstrated increasing involvement in the distribution and retailing. The global trend of brands controlling the distribution themselves leads Peace Mark to focus on developing the retail network instead of serving as a distributor in this sector.

With brands offering diverse product ranges in domestic market and actively promoting their brand awareness, consumers in China increasingly tend to buy luxury products in the local market instead of overseas. This phenomenon has been supported by findings of various market researches and the expansion in the size of the fashion and luxury markets. The direct import of Swiss watches posted an increase of

16% compared to last year. In April 2007, the Chinese authority has increased the tariff from 10% to 30% for overseas purchases of luxury watches. This acts as a deterrent of Mainland Chinese buying luxury watches overseas. Policy-wise, the Chinese government has been encouraging the domestic luxury purchases.

Since the Group started entering into the China luxury watch market last year, we have already established a sizable network with 65 points-of-sales at the year-end – a significant development within the space of just one and a half years.

The Group has adopted a multi-pronged strategy in expanding its network in China. We are operating in two retail formats, namely multi- or mono-brand stores, for greater market penetration. We also operate stores on our own or jointly with overseas/domestic partners to accelerate the expansion plan.

Peace Mark has been operating 25 mono-brand corners and boutiques as well as 40 multi-brands store at the year end.

Luxury brands have been diversifying their sales channels. In addition to the traditional multi-brands stores, brands like to sell through mono-brand boutiques. This format, on one hand, serves as a sales channel offering full range of products and, on the other hand, due to its visibility acts as a point of advertising.

The market size will continue to mushroom with more second – to third-tier cities springing up and expanding in retail spending. Certain second-tier provinces and cities are emerging as new markets characterized by high disposal income, conspicuous consumption, advertising explosion as well as rapid opening of new stores. Consolidation of the regional networks is underway. Selling through a nationwide network is what the market wants. The way Peace Mark has done to achieve this end has been acquiring a majority stake of quality regional network operators. In 2006, we had formed three regional joint ventures namely in the areas of Chongqing, Shenzhen and Ningbo. This year, we formed another two joint ventures covering the cities like Shenyang, Chengdu, Xian and Qingdao. Given the high demand for working capital in luxury watch retailing, many regional networks are willing to partner with financially strong players in order to maintain their competitiveness.

Domestic Joint Venture

We also made significant progress on the merger and acquisition projects in China. We have and will continue to talk to other potential partners and this remains our main strategy for expansion in China.

Chongqing

Peace Mark has totally 11 stores in operation. Chongqing is the youngest but the largest autonomous municipality after Beijing, Shanghai and Tianjin. It is the retail and wholesale center of southern and western China. A significant growth of retail sales of consumer goods was reported in the past two years.

Ningbo

Peace Mark operates 5 stores there. Ningbo is Zhejiang province’s second largest retail market after Shanghai only. Ningbo’s GDP per capita is recorded at a high of USD5,389, compared to about USD1,700 for China as a whole in 2005.

Shenzhen
Peace Mark runs 4 stores in the city. Shenzhen is the most prosperous city in Guangdong Province in the southern part of China. Shenzhen enjoyed a per capita GDP of RMB60,801, about 5 times higher than the national average.

Chengdu
Peace Mark owns 6 stores there. Chengdu is the most important and largest consumer market in Sichuan Province, western part of China. Its total retail sales was RMB145 billion and the growth rate reached 25%, 2 times of the average of the nation in 2005.

By the end of 2005, 111 of the Fortune 500 companies have invested in Sichuan.

Shenyang
Peace Mark has 6 stores in presence. Shenyang, together with Dalian, are the two major cities in the Liaoning Province, the northern China. The province's GDP ranked the eighth among all the provinces and municipalities in China. Liaoning's total retail sales was ranked the 6th in China. Liaoning has rich mineral resources with large deposits of coal and iron ore.

Tourneau
Currently, we have in total 4 Tourneau stores in operation with a total floor area of approximately 38,500 square feet. The retail concept is to house mini-boutiques within a mega multi-brands store format with upscale services. The store design is geared towards offering more entertaining experience like organizing promotional events and provision of clubhouse facilities to VIP customers. This retail format has been proven very successful as evidenced by the Shanghai Xintiandi Tourneau store which has over one year of financial performance.

In July 2007, Peace Mark planned to pay USD1.5 million to acquire an additional 10% interest in Tourneau Peace Mark Joint Venture. After this acquisition, Peace Mark holds in aggregate 75% in the share capital of the Joint Venture. We believe that with the expertise and knowledge that Tourneau possesses the Joint Venture will speed up its development in China.

Expanding product range
Luxury watches, the men's accessory by definition, have experienced changes in China, The new purchasing power from the mainland's female population has added a new source of demand. Given the rising consumption power of women in China, branded jewelers are paving the way for expansion into the China market. Recently, the Group has been operating 2 Boucheron stores, one in Shanghai and one in Hong Kong under franchise. Boucheron is a watch and jewellery brand originated from France since 1858 and is under Gucci group.

Milus
In 2006, Peace Mark continues to invest in the development of Milus globally with the focus in major markets like North America, the Middle East, the Netherlands, Germany, Russia and China. In March 2007, an investment division of Orix Corporation, an integrated financial services group listed in Japan, invested USD10 million for a 9.99% indirect holding in Milus. The transaction serves to benchmark the valuation of Milus business on a global basis at a fair value of USD100 million. At the balance sheet date, the carrying value of the Milus brand is approximately HK$40 million.

We are operating an image shop in Hong Kong showcasing our products to the mainland Chinese. Recently, the Hong Kong shop has undergone a renovation work and is conveying a new message to the end consumers.

Distinctive design has been the competitive advantage of the brand. During the Basel fair 2007, Milus has launched a break-through lady model in design and technology, a triretrograde. This has been well received by distributors from all the major markets.

Middle-range market

For the middle-range market, we reinforced our market leadership during the year with sales growth of 82.2% to HK$1,110 million. The EBITDA margin for this segment was 19.4%.

The division's operating profit margin also showed improvement, advancing from 17.3% to 17.9%.

Over the years, fashion brands have been flooding into the China market and are constantly looking for distribution channels for fashion accessories. We had made significant progress on brand stable and network expansion in the Greater China Region. At Peace Mark, we are seizing the opportunities this trend offers to grow the business, At present, Peace Mark possesses a nationwide network for fashion watches and continues to expand further this platform for selling a range of branded accessories. At the year-end, Peace mark has over 850 points of sales set up across the country selling over 100 brands.

Shop level performance has been strong during the year. Most of the stores experienced same-store-sales have experienced above 30% growth year-on-year. There is a growth in demand of mid-priced imported products as the new middle class is emerging with higher disposable income and being more brand conscious than in the past. Young generation's affinity to branded goods has never been so high. Mid-range watches have also become popular gift items in China. These changes in consumer behaviors and increased consumer spending have been translating into demand for fashion watches.

We are well positioned in the mid-range sector as we have emerged from a manufacturing presence to distribution and retailing. The vertical integrated structure from manufacturing to retail enables us to fend off our competitors. Expanding downstream in China is not just strategically beneficial but also value adding to the business model.

There are over 35 regional offices with an established information system supporting the operation of the network. Our logistic and information system are the key drivers behind the significant growth in the network. Within the space of just three and a half years, we have made Peace Mark the leader in the mid-range foreign brands segment and we have reinforced this year with sales growth of 82.2%.

Vertical integrated structure, secure brand relationship, operational scale and experienced management make the barriers to entry in this industry high.

Supply Chain Management

The net turnover after eliminating the inter-segment sales reported was HK$1,161 million, accounting for 38.2% of the group turnover. Before the inter-segment elimination, the manufacturing turnover was flat.

The Group has maintained the current level of production capacity with upgrades of its 8 production facilities in China, Hong Kong and Switzerland. The strategy continues to be moving towards producing high margin products with increasing outsourcing of affordable watch programme business. For the China market, Peace Mark has been offering design and manufacturing supports to fashion brands with a full range of services from design to retailing. This enabled us to capture the margin along the value chain.

Disintermediation continues along the supply chain. Peace Mark will further strengthen its US operation by building its own setup. Nevertheless, the stagnant US economy has made buyers more cautious in forecasting order level.

Other than the US market, Peace Mark's marketing offices in France and Germany are progressing as expected.

Watch Movements

As a key component of a watch, Peace Mark places emphasis on watch movement manufacturing.

Peace Mark has been managing Shanghai Golden Time Precision Instrument producing mechanical watch movements for domestic and overseas markets. The annual production is in the range of 50,000 pieces.

In July, Peace Mark has entered into a preliminary agreement to acquire 51% Tianjin Seagull Watch Company movement factory. This Tianjin watch movement has a capacity of producing 6 million pieces a year and currently the annual output is approximately 3 million pieces. With this newly acquired movement factory, Peace Mark has become the leader in the China mechanical watch movement market with a market share of approximately 40%. We are able to manufacture mechanical movements with complications such as minute repeater and tourbillion.

After the year end date, Peace Mark also signed an agreement with Swissebauches and become the sole distributor of analogue quartz movements produced by Swissebauches in China with an annual sales of over 50 million pieces a year.

Management of execution risks

Regarding the execution of acquisition strategy, we always choose the retailers of established track record in their region and will be staying on post the acquisition. This helps eliminating competition and building our own local management team at the same time. Deployment of management and financial resources is well thought out when scheduling the expansion plan in selected cities in a manageable manner. All these result in stronger position in direct purchasing from brands.

Working capital is another area that needs management attention. We strive to increase the turns of luxury business. The risk of luxury products become obsolete is rare given the long product life cycle. Fashion watches are of shorter life cycle and we are more flexible in pricing as a retailer. Variance in consumer preferences and trend as well as brand awareness in different cities enable us to take advantage of these for inventory clearance.

Financial

Interest rate and Currency exposure

The balance sheet has been further strengthened after the year end date by extending the maturity profile of the existing debt structure. We are able to further lowering the interest rate to demonstrate the continuous improving creditability of Peace Mark amongst the banking community in Hong Kong. A syndicated loan amounting to HK$1,200 million was completed in June 2007. 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 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 points over the Hibor.

FINANCIAL REVIEWS

Turnover and Profits

Group results

Operationally and financially the Group posted strong results, with substantial gains in market share and an improvement in operating profitability. Growth recorded across all the business lines from manufacturing, distribution to retailing.

2007 Group turnover increased by 35.6% to HK$3,040 million. Sales in China rose 143.2% and represented 50.8% of the Group turnover. The mid-range maintained its leadership position representing 36.5% of the total business and the luxury division accounted for 14.3%. Luxury sales were up 1,587.7% for the year, higher than the market growth rate.

Strong top-line growth positively impacted on the Group's earning performance and led to operational synergies. Overall EBITDA margin for 2007 was 15.3%, an increase of 39.1%, compared to 2006. High start-up costs of new store rollout and their non-fully fledged were the main reasons for the relatively low EBITDA margin in the luxury segment. In the manufacturing segment, intense competition resulted in a margin decline in percentage point to 9.9%.

Operating profit rose by 45.6% to HK$456 million and the corresponding operating profit margin improved to 15.0%. This primarily reflects the increased sales from new stores, newly acquired network and the same-store-sales growth.

Net income improved by 49.7% to a record high of HK$300 million. Success in executing the expansion plans of different business lines contributed to the improved margin. This strong earnings performance encourages us to continue expanding in China and accelerating the execution of potential acquisitions and joint ventures.

Earnings per share was HK30.3 cents, increase of 36.9% compared to 2006. The Board paid an interim dividend per share of HK4.1 cents and proposed a final dividend per share of HK6.2 cents representing a total payout ratio of 35%

Selling, Distribution and Administration

Selling, Distribution and Administration expenses increased to a level of 21.8% of turnover. Selling and Distribution expenses were increased due to increased turnover of distribution and retailing businesses. Better operating efficiency has been achieved through larger scale of operations in both the middle and luxury ends. Management had focused on integrating various China businesses acquired last year and removed overlapping resources. This highly scalable platform enabled the Group to further control the level of operating expenses. Nevertheless, the new stores rolled out during the year incurred exceptionally high selling, distribution and administrative expenses compared to the initial stage of sales performance.

In the course of expanding the network in China, we have utilized internal funding and bank debts for financing the working capital needs and the associated capital expenditure plans. The overall financial strength remains health.

Return on capital has been increased to 17.8%. Given the pace of growth and non-full year contribution in terms of revenues and profits in an expanding mode, the return on capital could further be improved in the coming 24 months with fully fledged operation and operational synergies amongst various operations.

Peace Mark continued to grow strongly during 2007, with excellent performance from all core businesses.

Taxation
The effective tax rate before deferred tax for the year was 8.1%. There was an over-provision of HK$12 million last year and reverted this year. Unification of corporate income tax law in the China promulgated in March 2007 has no significant impact on the income tax payable by the Group in China. For the production, the (2+3) tax holiday available to the foreign invested enterprises has no impact on the Group's manufacturing entities as most of them have operating history of over 5 years. For the retailing entities, the withdrawal of preferential tax rates of 15% to 25% available to foreign invested enterprises operating in special economic zones has no significant impact as most of the retailing entities are operating in the major or second-tiers cities.

Liquidity and Financial Resources
Shareholders' Funds
Shareholders' Funds increased from HK$1,561 million to HK$1,806 million. No significant acquisitions were done during the year. Net Asset Value per share was HK$1.82.

Financial Position
In the course of expanding the network in China, we have utilized internal funding and bank debts for financing the working capital needs and the associated capital expenditure plans. The overall financial strength remains health.

At the year end date, the cash and bank balances stood at HK$1,460 million and the borrowings were at HK$2,066 million. The net gearing, expressed as a percentage of total net borrowings to equity attributable to shareholders, was 33.3%. The increased net gearing was a result of additional working capital requirements from operations and capital expenditures.

The year-end borrowings were split into 47.8% short-term and 52.2% long-term. The structures of the borrowings were mainly term and trade finance facilities. The Group continued to refinance the existing borrowings by cheaper financing. The major financings were: a 4-year syndicated term and revolving facility of HK$630 million completed in April 2005, a 3-year syndicated term loan facility of HK$600 million which is extendable to 7 years under certain conditions; and a 4-year loan of RMB380 million at an interest rate of 90% of PBOC rate.

Subsequent to the balance sheet date, a syndicated loan amounting to HK$1,200 million was completed in June 2007. 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 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 points over the Hibor.

This demonstrates the continuous improving creditability of Peace Mark amongst the banking community in Hong Kong enabling us to further lowering the interest rate.

The purposes of the fund raising activities were to finance the China distribution and retail network expansion and acquisition plans; refinance part of the higher costs short term debts; and lengthen the maturity profile of the debts.

More than 80% of the carrying amounts of the year-end borrowings are denominated in Hong Kong dollar.

The interest coverage, expressed as a multiple of EBITDA over the interest expenses, was 4.16 which remained at a comfortable level.

Working Capital
The Group's current ratio was 2.5.

The management continued to focus on the working capital management.

Total trade and other receivables increased by HK$281 million to HK$880 million. This year, the increased trade receivables was mainly due to longer credit terms extended to the US retailers. The US distribution turnover were HK$336 million and HK$310 million from 2007 and 2006 respectively, the corresponding trade receivables were HK$190 million and HK$130 million at the year end. Excluding their US distribution turnover and trade receivables, the net trade receivables as a percentage of turnover was 16.5%.

Inventory level was at HK$1,016 million, increased by HK$362 million. As a percentage of revenue, it has been increased from 29.2% to 33.4% but if excluding the factors listed as follows the ratio has been maintained at a 27.8%. Initial inventory for the major new stores openings and late completion of JV in the second half were the causes of high inventory level as a percentage of sales. In February 2007, we opened a new Rolex store in Hong Kong and two Boucheron stores in Shanghai and Hong Kong as well as in March 2007, we completed a new joint venture in China, all these new businesses have a level of inventory of HK$170 million and have significant impact on balance sheet without corresponding full-year sales contributions. It is imperative to control the inventory level at lower turnover days given the fact that the business cycle of a vertical integrated manufacturer and distributor, in particular for the US market, have trended towards longer inventory days. The lower inventory turnover days of the China mid-range business attributed to the overall satisfactory improvements.

As part of the working capital management, the Group also utilized working capital loans for the financing of its purchases. The costs of trade financing have been much lower than the suppliers' credit in general resulting in improved gross profit margin from 31.1% to 32.4%.

Capital Expenditure and Acquisition costs
Capital expenditure and acquisition costs for the year was HK$183 million and HK$85 million respectively. The capital expenditure for the year was mainly for the refurbishment of existing points of sales and renovation of new stores roll out plans and general maintenance capital expenditure.

Capital Commitment and Contingent Liability
As at 31st March 2007, there were no material capital commitment and contingent liability.

Financial Risk Management

The Group manages its financial resources and liquidity as well as financial risk management according to a set of policies and procedures approved by the Board of directors.

The overall objectives is to act prudently to ensure that the Group has adequate cash flow and access to funding sources, both debt or equity, to fund the operations and the potential investments. Hedging arrangement of currency and interest rate risks will be entered into with consideration being given to the hedging costs and the risk level.

The risk is managed through prudent treasury policies, which include the following:

1. The Group closely monitors the cash resources. We maintain a conservative cash reserve and review our position regularly to ensure that cost-efficient funding is available for operating expenses, capital expenditure needs and business expansion;

2. Our policy is to deposit surplus cash with creditworthy financial institutions or invest in low risk and liquid instruments; and

3. To the extent possible the financing and cash management of the subsidiaries have been managed by the centralized treasury functions for the efficient allocation of capital, lower funding costs and control purposes.

The Group will continue to maintain sufficient liquidity and further diversify the funding sources and extend maturities profile, if necessary, to meet business requirements.

Interest Rate Exposure

The Group manages its interest rate exposure with a view to increasing the predictability of the interest payment and lower the overall cost of debt. It is the Group's policy to mitigate interest rate risk through the use of appropriate interest rate hedging instruments that mitigate current and future interest rate volatility.

As part of balance sheet management, we have matched the maturity of the assets and liabilities to the greatest possible extent. Certain shorter-term tenor bank borrowings have been refinanced by longer term debt with flexible interest rate reset. This enabled the financial flexibility of the Group. Interest rate movement and hedging advices are provided from time to time by leading banks to the Group.

After taking into consideration of interest rate swap, the Group's fixed rate debt was at an effective interest rate of approximately 4.95-5.2%, and as a percentage of total debt was approximately 40%.

Foreign Currency Exposure

The Group manages its foreign currency exposure by entering into currency hedging instruments, like currency forwards, to hedge currency exposure at an optimal level. Operating exposure of currency movement will be closely monitored. Currency derivatives (e.g. EUR, GBP and CHF) will be entered into to hedge the change of expected cash flows arising from an unexpected change in exchange rates. For RMB, the Company tends to naturally hedge its RMB denominated liabilities and expenses by the RMB denominated assets and revenue.

Currency transaction loss was HK$3.8 million and was expensed, while the currency translation charge of HK$4.7 million was reflected as reserve movement during the year.

Credit Exposure

The Group deals with the credit exposure according to the risk management policies. Credit extended to business associates are based on the credit analysis provided by credit agencies and trade intelligence sourced through industry participants.

All finance-related hedging transactions and deposits are made with counter-parties with high credit ratings.

Risk Factors

There are several risk factors pertaining to the core businesses that the Group considers that may adversely affect its results of operations and financial position. There may be other risks in addition to those listed below which are not known to the Group or which may not be material now could turn out to be material in the future.

INDUSTRY TRENDS

Intense competition in the watch industry

China retail

The Group faces competition from both domestic and overseas watch distributors and retailers. Domestic companies have dominated the watch distribution and retail industry in China. After China entered into WTO, more foreign brand owners may operate a distribution business by themselves to better control the sales channel. New market entrants entering into this market also cause higher competition. In the face of such risks, the Group speeds up its business plan for the retail network expansion to raise the barrier to entry; established a vertical integrated platform from manufacturing, distribution, retail to after-sales services; and formed strategic alliances with foreign and domestic companies for leveraging the resources.

Manufacturing

Manufacturing business has been highly competitive and the industry is fragmented. The Group participated in industry association involved in the industry strategy and policy formulation; improved the quality of its products; made considerable efforts in product development and design; and formed strategic partnership with major industry players combining the respective strength.

Changes and uncertainties in PRC policies

Regulatory environment including the tax regime in China may change and adversely affect the operating environment and consumer market. These risks can be addressed through establishing and maintaining a good relationship with relevant authorities for updating the regulatory changes.

Increase in raw materials price

The increase in raw materials price may adversely affect the margin of the manufacturing business if the Group is not able to pass the increased costs to the customers. Satisfactory level of hedging is not possible given the uncertainty of the volume and kind of materials for manufacturing. We manage the margin of the business by advising alternative or mixed materials in substitution of the more expensive ones.

HUMAN RESOURCES

The Group employed over 5,000 employees mainly in China, Hong Kong, the USA and Europe. The total staff costs amounted to HK$196.6 million as compared to HK$141.9 million of last year.

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

Share Incentive Scheme

On 31st March 2006, the Company adopted a share incentive scheme (the "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 installment payment.

The Company has obtained a loan in the amount up to HK$350 million from a bank for the purpose of financing the operation of the Scheme. Shares to be purchased pursuant to the 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 dispose of their Shares.

The aggregate number of Shares to be offered under the Scheme 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 Scheme shall not exceed HK$350 million.

DIVIDEND

The Directors have resolved to recommend to Shareholders at the Company's forthcoming annual general meeting the payment of a final dividend of HK6.2 cents per share for the year ended 31st March, 2007 (2006: HK4.3 cents). The final dividend, if approved by the members, will be paid on 28th September, 2007 to the Shareholders whose names appear on the register of members of the Company on 23rd August, 2007.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 21st August, 2007 to 23rd August, 2007, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all share transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrars in Hong Kong, 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 Monday, 20th August, 2007.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held on Thursday, 23rd August, 2007.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year, the Company did not redeem any of its shares. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed shares during the year.

CORPORATE GOVERNANCE

The "Company is committed to maintaining high standards of corporate governance so as to ensure better transparency and protection of shareholders' interest in general.

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices ("Corporate Governance Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the year ended 31st March, 2007 except the following deviations:

Code provision A.4.2 (first sentence)

The code provision A.4.2 of the Corporate Governance Code (the first sentence) provides that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Paragraph 4(2) of Appendix 3 of the Listing Rules and the existing Bye-law 86(2) of the Bye-laws of the Company, however, require any director appointed by the Board to fill a causal vacancy to hold office only until the next following annual general meeting and shall then be eligible for re-election at that meeting.

The Bye-laws of the Company constitutes a deviation from the first sentence of the code provision A.4.2 of the Corporate Governance Code. To comply with the first sentence of the code provision A.4.2 of the Corporate Governance Code, amendment to the Bye-law 86(2) of the Bye-laws of the Company was proposed and approved by the shareholders at the annual general meeting held on 25th August, 2006.

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

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 year ended 31st March, 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 year ended 31st March, 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.

The figures in respect of the preliminary announcement of the Group's results for the year ended 31st March 2007 have been agreed by the Group's auditors, Chu and Chu, Certified Public Accountants ("Chu and Chu"), to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by Chu and Chu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Chu and Chu on the preliminary announcement.

PUBLICATION OF ANNUAL RESULTS ON WEBSITE

The financial information required to be disclosed under paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited at www.hkex.com.hk in due course.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my sincere thanks to all our staff, the management team and board members for their hard work and dedication. Their commitment to the Group, along with the support of shareholders, bankers, customers and suppliers, has been crucial to our long-term success.

List of all directors of the Company as at the date of this announcement:

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

Independent Non-Executive Directors:
Susan So
Kwok Ping Ki, Albert
Wong Yee Sui, Andrew
Tang Yat Kan
Mak Siu Wing, Clifford

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

Hong Kong, 12th July, 2007