



Peace Mark (Holdings) Limited
宜進利(集團)有限公司
(Incorporated in Bermuda with limited liability)
(於百慕達註冊成立之有限公司)



10th LISTING ANNIVERSARY

INTERIM REPORT

中期報告

2003

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-Executive Directors

Sir Oswald Cheung
 (Deceased on 10th December, 2003)
 Ms. Susan So
 Mr. Kwok Ping Ki, Albert
 Mr. Tang Yat Kan
 (Appointed on 18th December, 2003)
 Mr. Wong Yee Sui, Andrew
 (Appointed on 18th December, 2003)

COMPANY SECRETARY

Ms. Fong Ho Yan, AHKSA, ACCA
 (Appointed on 18th November, 2003)

PRINCIPAL PLACE OF BUSINESS

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

OTHER OFFICES

US Office
 140-58th Street Suite 6C
 Brooklyn, New York 11220

Swiss Office
 Route de Reuchenette 19
 2502 Bienne
 Switzerland

China-Production Facilities
 107 Shui Ku Lu
 Fenghuang Gang
 Xi Xiang Baoan
 Shenzhen
 PRC

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

China-Distribution Offices
 6th Floor, Integrated Building
 China Construction Second Division
 Shenzhen First Company
 Jing Er Road
 Luo Hu District
 Shenzhen
 PRC

Room 1101
 308 Da Tak Road
 Guangzhou
 PRC

Taiwan Office
 3rd Floor No. 317
 Sec 3 Ho-Ping E. Road
 Taipei, Taiwan
 ROC

Panama Office
 Apartado 2034
 Zona Libre de Colon
 Republic of Panama

WEBSITE

<http://www.peacemark.com>



REGISTERED OFFICE

Clarendon House, Church Street
Hamilton HM 11
Bermuda

STOCK INFORMATION

The Stock Exchange of Hong Kong Limited
Trading Code: 0304

INVESTOR RELATIONS

Communications Department - general
Corporate Finance Department - financial
information
Unit 3, 12th Floor
Cheung Fung Industrial Building
23-39 Pak Tin Par Street, Tsuen Wan
Hong Kong
Email: ir@peacemark.com

PRINCIPAL BANKERS

Bank of China (Hong Kong)
BNP Paribas
China Construction Bank
ING Bank N.V.
HSH Nordbank AG
HVB AG
Natexis Banques Populaires

AUDITORS

Chu and Chu
Certified Public Accountants
Suite 2302-7, ING Tower
308 Des Voeux Road Central
Hong Kong

LEGAL ADVISORS

Simmons & Simmons
35th Floor, Cheung Kong Center
2 Queen's Road Central
Hong Kong

Gallant Y. T. Ho & Co
4th Floor, Jardine House
1 Connaught Place
Hong Kong

SHARE REGISTRARS AND TRANSFER OFFICES

In Hong Kong:
Secretaries Limited
Ground Floor
Bank of East Asia Harbour
View Center
56 Gloucester Road
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		Change %
	2003 (Unaudited)	2002 (Unaudited)	
Results			
Turnover (HK\$ million)	613.2	502.7	+22
Gross Profit (HK\$ million)	135.5	81.2	+67
EBITDA (HK\$ million)	66.4	57.2	+16
EBIT (HK\$ million)	44.3	33.2	+33
Profit Attributable to Shareholders (HK\$ million)	34.3	24.0	+43
Basic Earnings per Share (HK cents)	5.42	8.65	-37
Interim Dividend per Share (HK cents)	1.80	1.50	+20
	As at	As at	
	30th September,	31st March,	
	2003	2003	
Financial Position	(Unaudited)	(Audited)	Change %
Total Assets (HK\$ million)	1,416.6	1,283.6	+10
Cash and Bank Balances (HK\$ million)	237.5	207.6	+14
Shareholders' Funds (HK\$ million)	707.3	675.5	+5
Net Assets per Share (HK\$)	1.10	1.07	+3



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 30th September, 2003 together with the comparative figures for the corresponding period as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (Unaudited)

		Six months ended 30th September,	
		2003	2002 (Restated)
	Note	HK\$'000	HK\$'000
Turnover	2	613,226	502,658
Cost of sales		(477,769)	(421,472)
Gross profit		135,457	81,186
Other revenue		4,596	3,928
Selling and distribution costs		(41,820)	(24,935)
Administrative expenses		(46,853)	(23,170)
Other operating expenses		(5,660)	(1,831)
Profit from operations		45,720	35,178
Share of profit of an associate		121	–
Share of loss of a jointly controlled entity		(1,535)	(1,961)
Finance costs		(6,785)	(6,331)
Profit before taxation	2, 3	37,521	26,886
Taxation	4	(1,657)	(2,936)
Profit after taxation		35,864	23,950
Minority interests		(1,596)	–
Profit attributable to shareholders		34,268	23,950
Interim dividend	5	11,544	8,276
Earnings per share	6		
Basic (HK cents)		5.42	8.65
Diluted (HK cents)		5.39	8.50

CONDENSED CONSOLIDATED BALANCE SHEET

		As at 30th September, 2003 (Unaudited) HK\$'000	As at 31st March, 2003 (Audited, restated) HK\$'000
Non-current assets			
Property, plant and equipment	7	368,072	357,070
Intangible assets		58,284	60,912
Goodwill		34,860	19,381
Interest in an associate		54,856	29,738
Interest in a jointly controlled entity		9,575	9,535
Investments in securities		15,611	11
Deferred tax assets		526	–
Other financial assets		29,225	29,225
		<u>571,009</u>	<u>505,872</u>
Current assets			
Inventories		230,358	227,715
Trade and other receivables	8	377,708	342,478
Cash and bank balances		237,536	207,568
		<u>845,602</u>	<u>777,761</u>
Current liabilities			
Trade and other payables	9	133,196	90,471
Syndicated loan – due within one year	10	114,286	114,286
Other interest-bearing borrowings – due within one year	10	284,410	171,882
Obligations under finance leases – due within one year	11	791	773
Profits tax payable		7,940	4,204
		<u>540,623</u>	<u>381,616</u>
Net current assets		<u>304,979</u>	<u>396,145</u>
Total assets less current liabilities		<u>875,988</u>	<u>902,017</u>
Non-current liabilities			
Syndicated loan – due after one year	10	28,571	85,714
Other interest-bearing borrowings – due after one year	10	89,480	89,486
Obligations under finance leases – due after one year	11	986	1,390
Deferred tax liabilities		4,660	6,756
		<u>123,697</u>	<u>183,346</u>
Minority interests		<u>44,956</u>	<u>43,149</u>
Net assets		<u>707,335</u>	<u>675,522</u>
Capital and reserves			
Share capital	12	64,132	63,090
Reserves		643,203	612,432
Shareholders' funds		<u>707,335</u>	<u>675,522</u>



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)

	Share capital	Share premium	Merger deficit	Capital reserve	Contributed surplus	Leasehold properties	Exchange		Retained profits	Total
						revaluation reserve	Other reserve	fluctuation reserve		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1st April, 2003	63,090	76,734	(11,988)	12,372	349,431	5,466	(26)	86	180,357	675,522
Issue of new shares pursuant to the exercise of share options	188	215	-	-	-	-	-	-	-	403
Issue of new shares pursuant to the exercise of warrants	1	8	-	-	-	-	-	-	-	9
Issue of new shares as 2003 final scrip dividend in lieu of cash	853	5,403	-	-	-	-	-	-	-	6,256
Exchange realignment	-	-	-	-	-	-	-	368	-	368
Profit for the period	-	-	-	-	-	-	-	-	34,268	34,268
2003 final dividend paid	-	-	-	-	-	-	-	-	(9,491)	(9,491)
As at 30th September, 2003	64,132	82,360	(11,988)	12,372	349,431	5,466	(26)	454	205,134	707,335

	Share capital	Share premium	Merger deficit	Capital reserve	Contributed surplus	Leasehold properties	Exchange		Retained profits	Total
						revaluation reserve	Other reserve	fluctuation reserve		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1st April, 2002	18,391	43,255	(11,988)	12,372	349,431	5,466	(22)	-	130,434	547,339
Rights issue of two shares for every share held	36,782	29,426	-	-	-	-	-	-	-	66,208
Offset rights issue expenses	-	(3,233)	-	-	-	-	-	-	-	(3,233)
Unrealized holding loss of investments in securities	-	-	-	-	-	-	(7)	-	-	(7)
Profit for the period	-	-	-	-	-	-	-	-	23,950	23,950
As at 30th September, 2002	55,173	69,448	(11,988)	12,372	349,431	5,466	(29)	-	154,384	634,257

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (Unaudited)

	Six months ended	
	30th September, 2003	2002
	HK\$'000	HK\$'000
Net cash from (used in) operating activities	114,926	(17,018)
Net cash used in investing activities	(83,960)	(71,023)
Net cash (used in) from financing activities	(974)	113,306
	<hr/>	<hr/>
Net increase in cash and cash equivalents	29,992	25,265
Cash and cash equivalents at 1st April	207,544	153,999
	<hr/>	<hr/>
Cash and cash equivalents at 30th September	237,536	179,264
Analysis of the balances of cash and cash equivalents:		
Cash and bank balances	237,536	179,271
Bank overdrafts	–	(7)
	<hr/>	<hr/>
	237,536	179,264
	<hr/>	<hr/>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM ACCOUNTS

1. Basis of preparation and principal accounting policies

The unaudited condensed consolidated interim accounts (the "Interim Accounts") of the Group are prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA") and the requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Interim Accounts should be read in conjunction with the 2003 annual accounts.

The accounting policies and basis of preparation used in the preparation of the Interim Accounts are the same as those adopted in the annual financial statements for the year ended 31st March, 2003, except that the Group has adopted SSAP 12 (revised) "Income Taxes" issued by the HKSA to account for deferred taxation which is effective for accounting periods commencing on or after 1st January, 2003.

Under SSAP 12 (revised), deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future.

The adoption of the revised SSAP has had no material impact on the Group's Interim Accounts. Accordingly, no prior period adjustment has been required.

2. 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 and distributing 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 30th September, 2003		Six months ended 30th September, 2003	
	2003	2002 (Restated)	2003	2002 (Restated)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Americas	341,141	279,141	54,348	29,664
Asia	159,827	113,765	22,376	13,700
Europe	112,258	109,752	16,913	10,925
	<u>613,226</u>	<u>502,658</u>	<u>93,637</u>	<u>54,289</u>
Other revenue			4,596	3,928
Unallocated expenses			(53,927)	(25,000)
Finance costs			(6,785)	(6,331)
Profit before taxation			<u>37,521</u>	<u>26,886</u>

3. Profit before taxation

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

	Six months ended	
	30th September,	
	2003	2002
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	18,825	20,693
Amortization of intangible assets	2,713	2,967
Amortization of goodwill	518	308
Minimum lease payment in respect of properties under operating leases	1,169	298
Interest expenses	6,785	6,331
Interest income	(1,917)	(1,227)
	<u>18,825</u>	<u>29,862</u>

4. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (six months ended 30th September, 2002: 16%) on the estimated assessable profits arising in Hong Kong during the period. Tax on profits assessable elsewhere have been calculated at the rate of taxation prevailing in the countries in which the Group operates.

	Six months ended	
	30th September,	
	2003	2002
	HK\$'000	HK\$'000
Current period		
Hong Kong profits tax	4,264	1,712
Taxation in other jurisdictions	15	–
Deferred taxation	(2,622)	1,224
	<u>1,657</u>	<u>2,936</u>



5. Dividends

	Six months ended 30th September,	
	2003	2002
	HK\$'000	HK\$'000
Dividend paid		
2002 final dividend of 1.5 HK cents (2001: Nil) per ordinary share	<u>9,491</u>	<u>–</u>
Dividend proposed		
2003 interim dividend of 1.8 HK cents (2002: 1.5 HK cents) per ordinary share	<u>11,544</u>	<u>8,276</u>

On 18th December, 2003, the Board declared an interim dividend of 1.8 HK cents per ordinary share. This dividend declared is not reflected as dividend payable in the Interim Accounts, but is reflected as an appropriation of revenue reserves.

6. Earnings per share

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

	Six months ended 30th September,	
	2003	2002
	HK\$'000	HK\$'000
Profit attributable to shareholders	<u>34,268</u>	<u>23,950</u>
Weighted average number of shares for the purpose of basic earnings per share calculation	632,026,715	277,027,342
Potential dilutive shares		
– share options	89,694	4,713,652
– warrants	3,120,493	<u>–</u>
Weighted average number of shares for the purpose of diluted earnings per share calculation	<u>635,236,902</u>	<u>281,740,994</u>
Basic earnings per share (HK cents)	<u>5.42</u>	<u>8.65</u>
Diluted earnings per share (HK cents)	<u>5.39</u>	<u>8.50</u>

7. Capital expenditure

During the period, the Group spent approximately HK\$29,827,000 (year ended 31st March, 2003: HK\$101,676,000) on property, plant and equipment to expand its business. Net book value of property, plant and equipment of the Group disposed of during the period amounted to HK\$Nil (year ended 31st March, 2003: HK\$1,237,000).

8. Trade and other receivables

The Group allows an average credit period of 90-120 days to its trade customers. An aged analysis of the trade receivables (net of provision for bad and doubtful debts) as at 30th September, 2003 is as follows:

	As at 30th September, 2003 HK\$'000	As at 31st March, 2003 HK\$'000
0 – 90 days	177,197	151,872
91 – 180 days	11,914	7,493
Over 180 days	5,568	3,047
	194,679	162,412
Trade deposits	105,154	78,061
Prepayments and other receivables	77,875	102,005
	377,708	342,478

9. Trade and other payables

An aged analysis of the trade payables as at 30th September, 2003 is as follows:

	As at 30th September, 2003 HK\$'000	As at 31st March, 2003 HK\$'000
0 – 90 days	88,418	46,706
91 – 180 days	10,281	1,812
Over 180 days	4,112	1,856
	102,811	50,374
Accruals and other payables	30,385	40,097
	133,196	90,471

**10. Syndicated loan and other interest-bearing borrowings**

The syndicated loan and other interest-bearing borrowings are repayable as follows:

	As at 30th September, 2003 HK\$'000	As at 31st March, 2003 HK\$'000
Within one year	398,696	286,168
After one year but within two years	72,904	125,954
After two years but within five years	45,147	49,246
	<hr/>	<hr/>
	516,747	461,368
Less: amount repayable within one year	(398,696)	(286,168)
	<hr/>	<hr/>
	118,051	175,200
	<hr/> <hr/>	<hr/> <hr/>

The balances of the syndicated loan and other interest-bearing borrowings are as follows:

	As at 30th September, 2003 HK\$'000	As at 31st March, 2003 HK\$'000
Syndicated loan, unsecured	142,857	200,000
Other interest-bearing borrowings		
– secured	24,000	26,400
– unsecured	349,890	234,968
	<hr/>	<hr/>
	516,747	461,368
	<hr/> <hr/>	<hr/> <hr/>

As at 30th September, 2003, leasehold properties with carrying value of approximately HK\$15,956,000 (31st March, 2003: HK\$15,956,000) had been pledged to secure banking facilities granted to a subsidiary of the Group.

11. Obligations under finance leases

Obligations under finance leases are repayable as follows:

	As at 30th September, 2003 HK\$'000	As at 31st March, 2003 HK\$'000
Within one year	851	824
More than one year, but not exceeding two years	807	804
More than two years, but not exceeding five years	210	659
	1,868	2,287
Less: future finance charges	(91)	(124)
	1,777	2,163
Less: amount repayable within one year	(791)	(773)
	986	1,390

12. Share capital

	As at 30th September, 2003 HK\$'000	As at 31st March, 2003 HK\$'000
Authorized:		
6,000,000,000 (31st March, 2003: 6,000,000,000) ordinary shares of HK\$0.10 each	600,000	600,000
Issued and fully paid:		
641,323,945 (31st March, 2003: 630,899,833) ordinary shares of HK\$0.10 each	64,132	63,090



The movements in issued share capital of the Company are as follows:

		Number of shares issued	Paid-up nominal value HK\$'000
As at 31st March, 2003		630,899,833	63,090
Issue of new shares pursuant to the exercise of share options	(a)	1,875,000	188
Issue of new shares pursuant to the exercise of warrants	(b)	14,294	1
Issue of new shares as 2003 final scrip dividend in lieu of cash	(c)	<u>8,534,818</u>	<u>853</u>
As at 30th September, 2003		<u>641,323,945</u>	<u>64,132</u>

(a) During the period, 1,875,000 new shares of HK\$0.10 each were issued under a share option scheme which became effective on 24th January, 2002 with exercise prices of HK\$0.2 per share and HK\$0.227 per share for 840,000 shares and 1,035,000 shares respectively. These shares rank pari passu with the existing shares of the Company.

(b) A bonus issue of warrants (the "Bonus Warrants") of the Company to its shareholders was approved by the Board on 1st August, 2003. The Bonus Warrants are exercisable at any time from 5th August, 2003 to 4th August, 2005, both dates inclusive. Each Bonus Warrant entitles the holder thereof to subscribe for one new share at an initial subscription price of HK\$0.65. During the period, 14,294 new shares of HK\$0.10 each were issued upon the exercise of 14,294 Bonus Warrants. These shares rank pari passu with the existing shares of the Company.

	Scrip price HK\$	Proceeds credited to		Total HK\$'000
		Share capital account HK\$'000	Share premium account HK\$'000	
Number of shares issued as 2003 final dividend				
<u>8,534,818</u>	<u>0.733</u>	<u>853</u>	<u>5,403</u>	<u>6,256</u>

13. Commitments under operating leases

As at 30th September, 2003, 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 30th September, 2003 HK\$'000	As at 31st March, 2003 HK\$'000
Within one year	2,306	2,341
More than one year but within five years	6,496	6,911
More than five years	577	1,267
	<u>9,379</u>	<u>10,519</u>

14. Contingent liabilities

As at 30th September, 2003, the Group had contingent liabilities in respect of bills discounted with recourse amounting to approximately HK\$64,600,000 (31st March, 2003: HK\$67,951,000).



15. Related party transactions

Significant related party transactions which were carried out in the normal course of the Group's business and were conducted on normal commercial terms are as follows:

	Note	Six months ended 30th September,	
		2003 HK\$'000	2002 HK\$'000
Sales of finished goods to an associate	(a)	2,757	–
Rental for use of plant and machinery provided to and charged to a jointly controlled entity	(b)	1,000	1,000
Electroplating services provided by and respective fee charged by a jointly controlled entity	(c)	<u>(4,918)</u>	<u>(2,372)</u>

Notes:

- (a) Sales of finished goods to the associate were conducted in the normal course of business at prices and terms as determined by the transacting parties at arm's length basis.
- (b) The amount of the rental received from the jointly controlled entity was agreed between the transacting parties at arm's length basis.
- (c) Fee for electroplating services provided by the jointly controlled entity was charged at prices and terms as agreed between the transacting parties at arm's length basis.

16. Subsequent events

On 14th October, 2003, the Company entered into a 3.5-year term loan facility of HK\$380 million with BNP Paribas Hong Kong Branch and 18 other local and international banks.

On 30th October, 2003, the Group entered into an agreement in relation to an acquisition of 60% equity interests in a timepiece distributor in the PRC at a consideration of RMB30 million.

17. Approval of Interim Accounts

The Interim Accounts were approved and authorized for issue by the Board on 18th December, 2003.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of 1.8 HK cents (2002: 1.5 HK cents) per share for the six months ended 30th September, 2003. The interim dividend will be payable on Monday, 16th February, 2004 to shareholders whose names appear on the register of members of the Company on Wednesday, 7th January, 2004, with a scrip alternative to offer the right to shareholders to elect to receive such interim dividend wholly or partly by allotment of new shares credited as fully paid in lieu of cash. A-ONE INVESTMENTS LIMITED, Mr. Chau Cham Wong, Patrick and United Success Enterprises Limited, altogether holding approximately 50.4% of the issued share capital of the Company, have indicated to the Board that they intend to take up their dividend entitlements wholly in shares.

A circular containing details of the scrip dividend scheme together with an election form will be sent to the shareholders of the Company as soon as practicable. The scrip dividend scheme is subject to the following conditions: (a) the issue price of a new share to be issued pursuant thereto being not less than the nominal value of a share of the Company; and (b) the granting by the Listing Committee of The Stock Exchange of Hong Kong Limited of the listing of and permission to deal in the new shares to be issued pursuant thereto.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 5th January, 2004 to Wednesday, 7th January, 2004, 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, Secretaries Limited of Ground Floor, Bank of East Asia Harbour View Center, 56 Gloucester Road, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on Friday, 2nd January, 2004. The dividend warrants and certificates for the new shares to be issued pursuant to the scrip dividend scheme will be distributed on or about Monday, 16th February, 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Performance

The Group's performance for the first half of the financial year was encouraging. Turnover for the six months ended 30th September, 2003 was HK\$613,226,000, representing an increase of 22.0% compared to the same period in 2002. The increase in turnover was mainly attributable to contribution from the organic growth of its core manufacturing business and the contribution from its US distribution arm namely Omni Watch & Clock Co., LLC.



The gross profit margin of the Group gradually improved from 16.2% in the first half of FY2003 to 18.2% in the second half of FY2003 and further improved to 22.1% in this period. The margin enhancement was mainly due to a series of successful implementation of business plans including further integration of production processes as well as moving towards more branded products manufacturing and distribution.

Profit attributable to shareholders was HK\$34,268,000, an increase of 43.1% as compared to the six months ended 30th September, 2002.

Review of Operations

Peace Mark aims to become an internationally acclaimed timepiece company, valued for its design, manufacturing, and distribution accomplishments. For the six months ended 30th September, 2003, the Group made significant progress in these areas, especially in timepiece distribution. While the US distribution business grew steadily, opportunities to expand the Group's PRC downstream business were also realized. Development plans to further enhance its manufacturing capabilities are also being explored to place the Group in a position to attract a wider customer base including well-known foreign brands.

In September 2003, the Group's 20 years of success received further industry recognition with Peace Mark's receipt of "Prominent Manufacturer Award 2003" for product development and industry contribution awarded by Global Sources Publication, a US based sourcing publication. The Board is confident that with the solid foundations established in the past, Peace Mark is poised to fully exploit present as well as future expansion plans.

Marketing and Product Development

The vertical integration strategy implemented over the past few years is yielding promising results including improved product development capabilities and higher margins. The Group achieved good results during the period despite of a volatile market and outbreak of SARS in Asia. During the Basel Fair 2003, the management team reacted quickly and implemented various contingency measures to minimize the potential effects on the Group's business. Positively, during the period under review, the Group's OEM and ODM business remained relatively steady while the turnover for the license and OBM business increased in comparison to the corresponding period in 2002. On average, orders on hand were maintained at 2.5-month level and the outlook for Christmas sales is positive across the Group's major markets. Owing to various factors including seasonal demand cycles, and the need for retailers to replenish their inventory levels to meet increasing consumer demand, the Board expects stronger growth in the second half of the FY2004.

USA – Omni Watch & Clock Co., LLC (“Omni”)

During the period under review, the US joint venture company Omni reported positive results in line with the management expectations. Sales to major retail chain stores and drug chain stores in the US reported steady growth. Owing to the new business development in the supermarket chains and the upscale retail store sector, the number of points of sale is also increasing. The Bill Blass brand, a couture label targeting the high end of the US market, is expected to be available in specialty retail stores and luxury department stores in December 2003.

Omni is also beginning to gain further financial independence from the Group. On 25th September, 2003, a financial institution approved a trade facility line of US\$4 million to this newly established joint venture based on its first six-month's performance record. The proceeds of the facility will facilitate business expansion needs of this US joint venture.

Production

From the production standpoint, the resulting benefits of capital expenditure and equipment upgrades over the past few years are continuing to materialize and overall margins throughout our production facilities are continuing to improve. This positive trend is expected to continue over the next few years. During the period, the capital base of the electroplating factory was further capitalized for further expansion. In addition, development of another production facility for manufacturing high-end timepieces in China is currently in progress. The Board estimates investment for this new production facility would be around HK\$40 million. The purpose is to further enhance the Group's design, R&D and components prototyping capabilities and to better position Peace Mark within the high-end market. This new facility will be equipped with world-class computerized equipment and be capable of achieving unprecedented lead times and quality products for upscale customers. Funding for the project will mainly come from the Group's internally generated cash flows and the syndicated loan. In short, the Board intends to serve high-end brands with advanced production facilities.

CEPA

With the implementation of the Closer Economic Partnership Agreement (the “CEPA”), the Board is optimistic that its downstream activities in the PRC will prosper. Starting from January 2004, the PRC Government will implement zero import tariffs on the imported timepiece products originating in Hong Kong. The Board expects that this bilateral agreement will facilitate the development of the Group's downstream business as well as elevate the brand image of the various labels under the Group's brand portfolio. To take advantage of the benefits of CEPA, the Board plans to invest HK\$30 million to add two production lines in Hong Kong solely for the PRC market. In



the meantime, an intermediate production line is currently being set up and applications for government licenses and approvals have been granted. The production line is expected to be fully operational in the first quarter of 2004.

Downstream Developments – The PRC

The Group began to develop its PRC downstream business in October 2002. Since then, the Group has appointed 12 authorized distributors which cover over 100 points of sale including 27 Wal-Mart stores throughout the PRC.

During the period under review, to pave the way for its expansion plan in the PRC, the Group invested HK\$15.6 million in the equity stake of a Japanese watch company. This company advises and assists Japanese brands in identifying and coordinating with PRC manufacturers, distribution partners and acquisition targets. This company also assists the Group to serve its Japanese customers. On 30th October, 2003, the Group entered into an agreement to acquire a 60% equity stake in an established timepiece distributor, significantly enhancing its distribution and retail network in the PRC. The consideration for this acquisition was RMB30 million. The said PRC distribution company is a domestic limited liability enterprise established under the laws of the PRC whose principal activity is to sell and distribute timepieces bearing the Japanese watch brand "Citizen". This acquisition not only will raise the Group's distribution margins in the PRC, but also increase the number of points of sale from over 100 to approximately 310, 210 of which are self-managed and located in major department stores. The Board intends to make use of the distribution network to sell its owned and licensed brands, including Victorinox, Pierre Cardin, Montana, Fiorucci and Umbro, while continuing to expand the network to sell the Citizen watches throughout the PRC.

Further, as part of the Group's expansion strategy, a PRC marketing and distribution company was acquired with a consideration of HK\$12 million. The function of this company is to assist the Group to further penetrate the PRC distribution network and to provide overall image management and points of sale setup services for the PRC market. This PRC company also owns the PRC distribution rights of a famous international brand.

As a direct result of the increase in the number of points of sale in the PRC, the Group's license and OBM business will experience further turnover growth. In the PRC market, significant top and bottom line contributions are expected in FY2005 and onwards accounting for the full year's operation of the newly acquired business and its synergy effects on the Group's downstream business.

Brand Developments

The Group participated in various trade exhibitions, such as the Basel Fair 2003, Hong Kong Watch & Clock Fair 2003 and the Shanghai International Watch & Clock Fair 2003. Innovative designs and house brands were introduced to the market and the general feedback has been extremely positive. In March 2003, the Group's upscale Swiss brand Milus was successfully re-launched to target the luxury segment. During the Hong Kong Watch & Clock Fair 2003, the Group also hosted a 2003/2004 collection preview event for Milus. In addition, in August 2003, the Group's brand name division successfully gained the PRC distribution rights for the world-renowned Swiss Army brand Victorinox. The Victorinox brand was first displayed at the Hong Kong Watch & Clock Fair 2003 and was later launched in the PRC market during the Shanghai International Watch & Clock Fair 2003. A launch event was organized in Shanghai in November and upcoming prospects for the Victorinox brand are encouraging.

Other Developments

In November, the Group successfully obtained a license to operate a watch school within its manufacturing grounds in China mainly for internal training. This project is well supported by the relevant Chinese authorities and various watch repair institutes overseas. Along with important confirmation and recognition of the timepiece industry, this school will supply a steady flow of skilled technicians to meet the Group's increasing after sales service demand.

Corporate Events

While sound business results have been reported throughout the Peace Mark Group, there were other significant milestones. On 14th October, 2003, the Group signed a HK\$380 million term loan facility arranged by BNP Paribas Hong Kong Branch. Nineteen local and international banks participated in this facility and the proceeds were used to refinance the then existing HK\$200 million syndicated facility concluded in November 2001, with the remaining funds being used to fund the general future expansion plans of Peace Mark and its subsidiaries.

Further efforts for better investor relations were put forward and the senior management of Peace Mark participated in various investor road shows in Asia and Europe to enhance communications between the Company and the investment community. In recognition of Peace Mark's outstanding investor relationship efforts, the Group was short-listed and was highly recommended in the 2003 IR Magazine Asia Awards for the "Grand Prix for IR for a Small-Mid Cap Company".



Corporate Governance

The Board regrets to announce that Sir Oswald Cheung, an independent non-executive director since 1993, passed away on 10th December, 2003. The Board would like to take this opportunity to express its sincere appreciation to Sir Oswald Cheung for his invaluable contributions to the Group and its condolence to his family.

To further enhance the Group's corporate governance, on 18th December, 2003, the Board elected Mr. Wong Yee Sui, Andrew (CPA, FHKSA) and Mr. Tang Yat Kan (Solicitor) as Independent Non-executive Directors and members of the Audit Committee. With their extensive knowledge and experience in the auditing, finance and legal fields, this will strengthen the Board's ability to meet its continuing focus on corporate governance throughout the Group.

Future Outlook

Peace Mark will continue to further integrate the operation with its overseas subsidiaries and customers to ensure its long-term success. To maximize shareholder value, the management team will continue to open doors to new business opportunities, build a greater global presence and gain greater industry acknowledgment. While the US growth strategy has proven to be successful, the management team believes that the combination of CEPA and Peace Mark's downstream expansion will create ample growth prospects in the Group's PRC business. As mentioned, plans for enlarging the Group's production capabilities through the development of an additional manufacturing facility for the high-end market is currently under implementation. This is an important strategic breakthrough, taking the Peace Mark Group to the next level of market position.

The management team is optimistic in the development plans as mentioned above and believes that these plans will materialize in the years to come and will reward its long-term investors and shareholders.

Financial Position

The Group has maintained a stable financial position. As at 30th September, 2003, the gearing ratio of the Group, measured by reference to the financial indebtedness net of cash and bank balances to shareholders' funds, was approximately 39.7%.

As mentioned previously, on 14th October, 2003, the Company entered into a facility agreement with BNP Paribas Hong Kong Branch and 18 other local and international banks in respect of a 3.5-year term loan facility of HK\$380 million. The proceeds of

the facility was used to refinance the then existing HK\$200 million syndicated facility of the Company which was concluded in November 2001 and to fund the general corporate purposes and future expansion of the Group.

In view of the Group cash generating operations, the Board is of the opinion that the Group has adequate cash resources for current business development requirements and capital expenditure commitment.

Subsequent Events

On 14th October, 2003, the Company entered into a facility agreement with BNP Paribas Hong Kong Branch and 18 other local and international banks in respect of a 3.5-year term loan facility of HK\$380 million.

On 30th October, 2003, the Group has entered into an agreement in relation to an acquisition of 60% equity and economic interests in a timepiece distributor in the PRC. The PRC timepiece distributor has a well-established network of over 210 points of sale in the PRC which cover the major department stores in first and second tiers cities in the PRC. Moreover, the PRC timepiece distributor is an authorized distributor of a Japanese watch brand in designated provinces in the PRC. The consideration is RMB30 million and was satisfied by internal funding.

Employees and Remuneration Policy

As at 30th September, 2003, the Group employed a total of approximately 1,800 employees worldwide.

The Group remunerates its employees based on their performance, experience and prevailing industry practices. In addition, the Group has established discretionary bonus and employee share option scheme which are designed to motivate and reward employees to achieve the Company's business performance targets.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30th September, 2003, 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")) as 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:



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

Name of directors	Number of issued shares		Number of underlying shares held under equity derivatives	Total interests	Total interests as a percentage of total issued shares	Number of issued shares held as a percentage of total issued shares <i>(note f)</i>
	Personal interests	Corporate interests				
Mr. Chau Cham Wong, Patrick	61,268,611	201,869,599 <i>(note a)</i>	19,892,274 <i>(note c)</i>	283,030,484	44.13%	41.03%
Mr. Leung Yung	-	262,029,590 <i>(note b)</i>	19,674,997 <i>(note d)</i>	281,704,587	43.93%	40.86%
Mr. Tsang Kwong Chiu, Kevin	5,867,667	-	1,150,000 <i>(note e)</i>	7,017,667	1.09%	0.91%
Mr. Cheng Kwan Ling	239,809	-	47,000 <i>(note e)</i>	286,809	0.04%	0.04%

Notes:

- a. This interest represented Mr. Chau Cham Wong, Patrick's interest through A-ONE INVESTMENTS LIMITED ("A-ONE"), a company which is 50.45% owned by Mr. Chau Cham Wong, Patrick.
- b. These interests represented:
 - (i) an interest in 60,159,991 shares of the Company held by United Success Enterprises Limited, which is 100% owned by Mr. Leung Yung; and
 - (ii) an interest in 201,869,599 shares of the Company held by A-ONE, a company which is 49.55% owned by Mr. Leung Yung.
- c. These interests represented Mr. Chau Cham Wong, Patrick's interests under listed equity derivatives as follows:
 - (i) an interest in 12,007,992 underlying shares in respect of warrants issued by the Company to Mr. Chau Cham Wong, Patrick as beneficial owner; and
 - (ii) an interest in 7,884,282 underlying shares in respect of warrants issued by the Company and held by A-ONE.

- d. These interests represented Mr. Leung Yung's interests under listed equity derivatives as follows:
 - (i) an interest in 11,790,715 underlying shares in respect of warrants issued by the Company and held by United Success Enterprises Limited, which is 100% owned by Mr. Leung Yung; and
 - (ii) an interest in 7,884,282 underlying shares in respect of warrants issued by the Company and held by A-ONE.
- e. These interests represented the interests in underlying shares in respect of warrants issued by the Company to these directors as beneficial owners.
- f. Additional disclosure.

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 30th September, 2003, 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) and during the six months ended 30th September, 2003, none of the directors of the Company, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such rights by any of them, as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

Share options are granted to the directors, employees and other eligible persons under the share option scheme (the "Scheme") of the Company adopted on 24th January, 2002. Particulars of share options outstanding during the period and as at 30th September, 2003 are as follows:

Participants	Date granted	Period during which options are exercisable	Price per share on exercise of options HK\$	Number of options at the beginning of the period	Number of options exercised during the period	Number of options outstanding at the end of the period	Market price per share on exercise of options HK\$
Director							
Mr. Man Kwok Keung	05/09/2002	05/03/2003 to 05/03/2006	0.227	1,035,000	(1,035,000)	–	0.79 – 0.82
Other employees							
In aggregate	23/8/2002	23/02/2003 to 23/02/2006	0.200	<u>965,000</u>	<u>(840,000)</u>	<u>125,000</u>	0.43 – 0.56
Total				<u>2,000,000</u>	<u>(1,875,000)</u>	<u>125,000</u>	

No option was granted, cancelled or lapsed under the Scheme during the period.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30th September, 2003, the following persons were substantial shareholders of the Company (as defined in the Listing Rules) and had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name of shareholders	Note	Total interests	Total interests as a percentage of total issued shares	Number of issued shares held as a percentage of total issued shares (note 4)
Mr. Chau Cham Wong, Patrick	1	73,276,603	11.43%	9.55%
United Success Enterprises Limited	2	71,950,706	11.22%	9.38%
A-ONE INVESTMENTS LIMITED	3	209,753,881	32.71%	31.48%

Notes:

1. These interests represented Mr. Chau Cham Wong, Patrick's beneficial interests in 61,268,611 shares and 12,007,992 underlying shares in respect of warrants issued by the Company.
2. These interests represented United Success Enterprises Limited's beneficial interests in 60,159,991 shares and 11,790,715 underlying shares in respect of warrants issued by the Company.
3. These interests represented A-ONE's beneficial interests in 201,869,599 shares and 7,884,282 underlying shares in respect of warrants issued by the Company.
4. Additional disclosure.

Save as disclosed above, the Company has not been notified of any other person (other than directors of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at 30th September, 2003.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30th September, 2003, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities.

PRACTICE NOTE 19 OF THE LISTING RULES

In accordance with the disclosure requirements of paragraph 3.7.1 of Practice Note 19 of the Listing Rules, the following disclosures are included in respect of a facility agreement dated 14th October, 2003 relating to a 3.5-year syndicated loan of HK\$380 million (the "Facility") made available to the Company (the "Facility Agreement").

The Facility Agreement contains certain events of default including:

- (a) if Mr. Chau Cham Wong, Patrick ceases at any time during the subsistence of the Facility Agreement to be the Chairman of the Company and the Group; and



- (b) if Mr. Chau Cham Wong, Patrick and Mr. Leung Yung collectively are no longer the single largest shareholder of the Company, holding beneficially (directly or indirectly) more than 35% of the voting share capital of the Company; or no longer control the Board of the Company.

Upon the occurrence of an event of default under the Facility Agreement and so long as it is continuing, BNP Paribas Hong Kong Branch 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.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and the unaudited Interim Accounts.

CODE OF BEST PRACTICE

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 30th September, 2003, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited except that non-executive directors are not appointed for a specific term as they are subject to retirement by rotation at annual general meeting of the Company in accordance with the Company's Bye-laws.

APPRECIATION

The Board is thankful to Peace Mark's business partners, bankers, investors as well as its shareholders and dedicated staff, for their support in achieving the Group's achievement.

On behalf of the Board
Chau Cham Wong, Patrick
Chairman

Hong Kong, 18th December, 2003

