



# Peace Mark (Holdings) Limited

(Incorporated in Bermuda with limited liability)

(Websites: <http://www.peacemark.com> and <http://www.irasia.com/listco/hk/peacemark>)

(Stock Code: 0304)

## INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2004

<b>FINANCIAL HIGHLIGHTS</b>			
<b>Results</b>			
	<b>2004</b>	2003	Changes
	<i>HK\$'million</i>	(Restated) <i>HK\$'million</i>	%
Turnover	<b>860.2</b>	613.2	40.3
Earnings before interest, tax, depreciation and amortization	<b>111.3</b>	65.9	68.9
Profit attributable to shareholders	<b>57.9</b>	34.3	68.8
Earnings per share (HK cents)	<b>7.08</b>	5.42	30.6
Dividend per share (HK cents)	<b>2.20</b>	1.80	22.2
Total shareholders' funds	<b>1,040.8</b>	707.3	47.2

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, 2004 together with the comparative figures for the corresponding period as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

		<b>Six months ended 30th September,</b>	
		<b>2004</b>	2003
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	<b>860,237</b>	613,226
Cost of sales		<b>(644,169)</b>	(477,769)
Gross profit		<b>216,068</b>	135,457
Other revenue		<b>9,008</b>	4,596
Selling and distribution costs		<b>(74,828)</b>	(41,820)
Administrative expenses		<b>(70,018)</b>	(46,853)
Other operating expenses		<b>(4,236)</b>	(5,660)
Profit from operations		<b>75,994</b>	45,720
Share of profit of an associate		<b>6,529</b>	121
Share of loss of a jointly controlled entity		<b>(646)</b>	(1,535)
Finance costs		<b>(9,900)</b>	(6,785)
Profit before taxation	2, 3	<b>71,977</b>	37,521
Taxation	4	<b>(7,280)</b>	(1,657)
Profit after taxation		<b>64,697</b>	35,864
Minority interest		<b>(6,791)</b>	(1,596)
Profit attributable to shareholders		<b>57,906</b>	34,268
Interim dividend	5	<b>18,405</b>	11,544
Earnings per share	6		
Basic (HK cents)		<b>7.08</b>	5.42
Diluted (HK cents)		<b>6.75</b>	5.39

## CONDENSED CONSOLIDATED BALANCE SHEET

		As at 30th September, 2004 (Unaudited) HK\$'000	As at 31st March, 2004 (Audited) HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	7	459,502	383,668
Intangible assets		109,406	56,532
Goodwill		133,405	60,052
Interest in an associate		73,793	65,680
Interest in a jointly controlled entity		15,336	10,922
Investments in securities		15,955	15,600
Deferred tax assets		6,378	12,272
Other financial assets		29,225	29,225
		<u>843,000</u>	<u>633,951</u>
<b>Current assets</b>			
Inventories		373,213	309,909
Trade and other receivables	8	412,316	397,473
Cash and bank balances		478,550	467,491
		<u>1,264,079</u>	<u>1,174,873</u>
<b>Current liabilities</b>			
Trade and other payables	9	144,516	142,451
Interest-bearing borrowings	10	449,913	382,016
Obligations under finance leases	11	3,493	3,233
Profits tax payable		10,545	8,969
		<u>608,467</u>	<u>536,669</u>
<b>Net current assets</b>		<u>655,612</u>	<u>638,204</u>
<b>Total assets less current liabilities</b>		<u>1,498,612</u>	<u>1,272,155</u>
<b>Non-current liabilities</b>			
Interest-bearing borrowings	10		
– Due after one year		363,617	421,450
Obligations under finance leases	11		
– Due after one year		2,946	3,209
Deferred tax liabilities		10,479	9,419
		<u>377,042</u>	<u>434,078</u>
<b>Minority interest</b>		<u>80,765</u>	<u>60,178</u>
<b>Net assets</b>		<u>1,040,805</u>	<u>777,899</u>
<b>Capital and reserves</b>			
Share capital	12	83,448	69,075
Reserves		957,357	708,824
<b>Shareholders' funds</b>		<u>1,040,805</u>	<u>777,899</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**

	Share capital HK\$'000	Share premium HK\$'000	Merger deficit HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Leasehold properties revaluation reserve HK\$'000	Other reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
As at 1st April, 2004	69,075	113,374	(11,988)	12,372	349,431	5,466	(26)	868	239,327	777,899
Issue of new shares for subscription	12,650	193,409	-	-	-	-	-	-	-	206,059
Shares repurchased and cancelled	(80)	(930)	-	-	-	-	-	-	-	(1,010)
Issue of new shares pursuant to the exercise of warrants	969	5,330	-	-	-	-	-	-	-	6,299
Issue of new shares as 2004 final scrip dividends, in lieu of cash	834	9,833	-	-	-	-	-	-	-	10,667
Exchange realignment	-	-	-	-	-	-	-	(476)	-	(476)
Profit for the period	-	-	-	-	-	-	-	-	57,906	57,906
2004 final dividend paid	-	-	-	-	-	-	-	-	(16,539)	(16,539)
<b>As at 30th September, 2004</b>	<b>83,448</b>	<b>321,016</b>	<b>(11,988)</b>	<b>12,372</b>	<b>349,431</b>	<b>5,466</b>	<b>(26)</b>	<b>392</b>	<b>280,694</b>	<b>1,040,805</b>

  

	Share capital HK\$'000	Share premium HK\$'000	Merger deficit HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Leasehold properties revaluation reserve HK\$'000	Other reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total 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 dividends, 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)
<b>As at 30th September, 2003</b>	<b>64,132</b>	<b>82,360</b>	<b>(11,988)</b>	<b>12,372</b>	<b>349,431</b>	<b>5,466</b>	<b>(26)</b>	<b>454</b>	<b>205,134</b>	<b>707,335</b>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)**

	<b>Six months ended 30th September,</b>	
	<b>2004 HK\$'000</b>	<b>2003 HK\$'000</b>
Net cash from operating activities	<b>61,991</b>	114,926
Net cash used in investing activities	<b>(256,095)</b>	(83,960)
Net cash from (used in) financing activities	<b>205,163</b>	(974)
Net increase in cash and cash equivalents	<b>11,059</b>	29,992
Cash and cash equivalents at 1st April	<b>467,491</b>	207,544
Cash and cash equivalents at 30th September	<b>478,550</b>	237,536
Analysis of the balances of cash and cash equivalents:		
Cash and bank balances	<b>478,550</b>	237,536

## NOTES TO 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 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants, and the requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Interim Accounts should be read in conjunction with the 2004 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, 2004.

### 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 Six months ended 30th September,		Segment results Six months ended 30th September,	
	2004	2003 (Restated)	2004	2003 (Restated)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Americas	420,423	341,141	51,794	54,348
Asia (excluding China)	189,503	159,765	29,668	22,913
Europe	128,962	112,258	23,901	16,913
China	121,349	62	35,877	(537)
	<u>860,237</u>	<u>613,226</u>	<u>141,240</u>	<u>93,637</u>
Other revenue			9,008	4,596
Unallocated expenses			(68,371)	(53,927)
Finance costs			(9,900)	(6,785)
Profit before taxation			<u>71,977</u>	<u>37,521</u>

### 3. Profit before taxation

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

	Six months ended 30th September,	
	2004	2003
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	31,192	18,825
Amortization of intangible assets	3,123	2,713
Amortization of goodwill	1,785	518
Interest expenses	9,900	6,785
Interest income	(835)	(1,917)
	<u>46,265</u>	<u>26,923</u>

### 4. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (six months ended 30th September, 2003: 17.5%) 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,	
	2004	2003
	HK\$'000	HK\$'000
Current period		
Hong Kong profits tax	8,478	4,264
Taxation in other jurisdictions	42	15
Deferred taxation	(1,240)	(2,622)
	<u>7,280</u>	<u>1,657</u>

## 5. Interim dividend

	Six months ended 30th September,	
	2004	2003
	HK\$'000	HK\$'000
2004 interim dividend declared of 2.2 HK cents (2003: 1.8 HK cents) per ordinary share	<u>18,405</u>	<u>11,544</u>

At a meeting held on 2nd December, 2004, the Board declared an interim dividend of 2.2 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 as follows:

	Six months ended 30th September,	
	2004	2003
	HK\$'000	HK\$'000
Profit attributable to shareholders	<u>57,906</u>	<u>34,268</u>
Weighted average number of shares for the purpose of basic earnings per share calculation	<u>817,472,226</u>	<u>632,026,715</u>
Potential dilutive shares		
– share options	17,268	89,694
– warrants	<u>40,916,080</u>	<u>3,120,493</u>
Weighted average number of shares for the purpose of diluted earnings per share calculation	<u>858,405,574</u>	<u>635,236,902</u>
Basic earnings per share (HK cents)	<u>7.08</u>	<u>5.42</u>
Diluted earnings per share (HK cents)	<u>6.75</u>	<u>5.39</u>

## 7. Capital expenditure

During the period, the Group spent approximately HK\$52,627,000 (year ended 31st March, 2004: HK\$68,861,000) 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, 2004: HK\$309,000).

## 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, 2004 is as follows:

	As at 30th September, 2004	As at 31st March, 2004
	HK\$'000	HK\$'000
0 – 90 days	178,684	137,764
91 – 180 days	36,189	23,616
Over 180 days	<u>11,309</u>	<u>30,178</u>
	226,182	191,558
Trade and other deposits, prepayments and other receivables	<u>186,134</u>	<u>205,915</u>
	<u>412,316</u>	<u>397,473</u>

## 9. Trade and other payables

An aged analysis of the trade payables as at 30th September, 2004 is as follows:

	As at 30th September, 2004	As at 31st March, 2004
	HK\$'000	HK\$'000
0 – 90 days	93,714	45,885
91 – 180 days	11,291	1,195
Over 180 days	<u>7,905</u>	<u>3,251</u>
	112,910	50,331
Accruals and other payables	<u>31,606</u>	<u>92,120</u>
	<u>144,516</u>	<u>142,451</u>

## 10. Interest-bearing borrowings

The interest-bearing borrowings are repayable as follows:

	As at 30th September, 2004 HK\$'000	As at 31st March, 2004 HK\$'000
Within one year	449,913	382,016
After one year but within two years	220,267	187,400
After two years but within five years	143,350	234,050
	<u>813,530</u>	<u>803,466</u>
Less: amount repayable within one year	(449,913)	(382,016)
	<u><u>363,617</u></u>	<u><u>421,450</u></u>

Analyzed as:

	As at 30th September, 2004 HK\$'000	As at 31st March, 2004 HK\$'000
– Secured	19,200	23,928
– Unsecured	794,330	779,538
	<u>813,530</u>	<u>803,466</u>

## 11. Obligations under finance leases

The obligations under finance leases are repayable as follows:

	As at 30th September, 2004 HK\$'000	As at 31st March, 2004 HK\$'000
Within one year	3,622	3,279
More than one year but within two years	2,370	2,431
More than two years but within five years	592	808
	<u>6,584</u>	<u>6,518</u>
Less: future finance charges	(145)	(76)
	<u>6,439</u>	<u>6,442</u>
Less: amount repayable within one year	(3,493)	(3,233)
	<u><u>2,946</u></u>	<u><u>3,209</u></u>

## 12. Share capital

	As at 30th September, 2004 HK\$'000	As at 31st March, 2004 HK\$'000
<i>Authorized:</i>		
6,000,000,000 (31st March, 2004: 6,000,000,000) ordinary shares of HK\$0.10 each	<u>600,000</u>	<u>600,000</u>
<i>Issued and fully paid:</i>		
816,039,357 (31st March, 2004: 690,753,531) ordinary shares of HK\$0.10 each	<u>81,604</u>	<u>69,075</u>
	<b>Number of shares issued</b>	<b>Paid-up nominal value HK\$'000</b>
As at 31st March, 2004	690,753,531	69,075
Issue of new shares for subscription (a)	126,500,000	12,650
Shares repurchased and cancelled (b)	(800,000)	(80)
Issue of new shares pursuant to the exercise of warrants (c)	9,689,812	969
Issue of new shares as 2004 final scrip dividend, in lieu of cash (d)	8,333,326	834
As at 30th September, 2004	<u><u>834,476,669</u></u>	<u><u>83,448</u></u>

- (a) On 6th April, 2004, A-ONE Investments Limited and United Success Enterprises Limited, substantial shareholders of the Company, subscribed for 126.5 million new shares in total at HK\$1.63 per share.
- (b) During the period, the Company repurchased its own shares on the Stock Exchange as follows:

<b>Month of repurchase in 2004</b>	<b>Number of shares</b>	<b>Price per share HK\$</b>	<b>Aggregate consideration paid HK\$'000</b>
August	<u>800,000</u>	<u>1.24 – 1.27</u>	<u>1,010</u>

The above shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium on repurchase was charged against share premium.

- (c) A bonus issue of warrants (the “Bonus Warrants”) of the Company to its shareholders was approved by the Board of Directors 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, 9,689,812 new shares of HK\$0.1 each were issued upon the exercise of 9,689,812 Bonus Warrants. These shares rank pari passu with the existing shares of the Company.

<b>Number of shares issued as 2004 final dividend</b>	<b>Scrip price HK\$</b>	<b>Proceeds credited to Share capital account HK\$'000</b>	<b>Share premium account HK\$'000</b>	<b>Total HK\$'000</b>
<u>8,333,326</u>	<u>1.350</u>	<u>833</u>	<u>10,417</u>	<u>11,250</u>

### 13. Contingent liabilities

As at 30th September, 2004, the Group has contingent liabilities in respect of bills discounted with recourse amounting to approximately HK\$45,497,000 (31st March, 2004: HK\$19,445,000).

## FINANCIAL REVIEW

For the six months ended 30th September, 2004, the Group made significant advancement in further extending its core competencies in timepiece design, manufacturing and distribution. Outstanding achievements were recorded throughout the Group’s operations in particularly the manufacturing and distribution operations in the PRC and the management of Peace Mark is confident that the opportunities in the PRC distribution business will continue to yield promising returns in the coming years.

During the period, the Group recorded a turnover of HK\$860.2 million, representing a growth of 40.1% as compared to the same period last year. Net profit for the period surged 68.8% to HK\$57.9 million. Despite of the dilutive effect of the share placement completed in April 2004, the EPS was 7.08 cents, up 30.6%.

## INTERIM DIVIDEND

The Directors have resolved to declare an interim dividend of 2.2 HK cents for the six months ended 30th September, 2004 (2003: 1.8 HK cents) payable on Friday, 31st December, 2004 to shareholders whose names appear on the register of members of the Company on Wednesday, 22nd December, 2004.

## REVIEW OF OPERATIONS

### Production

To further strengthen our leading position in the timepiece manufacturing sector, two production setup had been added to our existing production facilities.

Firstly, we have enlarged our design and production capabilities through the establishment of an upscale component manufacturing facility and a design laboratory positioned to cater for the high-end fashion and luxury brand customers. The strategic positioning of this facility is showing signs of early success, as we were able to establish new business relationships with customers from Switzerland and also other major watch brands from around the world. Together with the expertise and the latest machineries from Switzerland, we have strengthened our overall components manufacturing capabilities to pave way for the future of moving toward the upscale market while enlarging our existing customer base. With a view to becoming the model components manufacturing facility for the customers, our team members now strive to leverage the assets within this state of the art facility to its fullest potential.

Secondly, additional production capabilities were also realized within our vertically integrated manufacturing setup through controlling equity participation in a mechanical movement manufacturing plant in Shanghai, China. We strongly believe that China has the potential to become a leader in mechanical watch movement manufacturing given the labour intensive nature of the production process. We began phase one of our renovations work in this newly controlled facility to upgrade its overall standards and imported Swiss skill sets to further improve its overall quality standards. The mechanical movements manufactured by this facility mainly target the PRC market while small amounts are sold to the overseas market through our existing customers.

While progress was made in our new production facilities, the manufacturing segment experienced year on year growth. Factors such as growth in our overseas downstream business and improved market sentiment as compared to 2003 contributed to the surge in our manufacturing business and favorable results were reported during the Basel Fair, Hong Kong Watch & Clock Fair and various trade fairs in the PRC.

Orders on hand from key customers surged double digits and further direct sales business with new customers in Europe and the United States was recorded as the industry trend is for customers to consolidate to a few reliable suppliers. With stronger manufacturing capabilities, we are able to move further upscale to the higher margin manufacturing business.

During the period, prices in various raw materials in particular stainless steel had experienced shortage. To a large extent, we were able to transfer the increase in cost onto the customers of higher-end products. As buying decisions of the end consumers tend to be design driven instead of materials used, customers who were not prepared to absorb the costs were likely to use other alternative materials such as alloy and leather. Material costs have not been the major concern for fashion and design driven products.

### **CEPA**

We are currently in the final stage of renovations work within our Hong Kong offices for the two production lines specifically dedicated to the CEPA scheme. These two lines will replace our existing temporary CEPA production lines. So far, we hold the record for the first Hong Kong based timepiece company to manufacture watches within our Hong Kong production lines and to sell directly to our PRC distribution channels in order to enjoy the benefits of CEPA. The incorporation of a wholly foreign owned enterprise with distribution license is progressing towards the final stage. During the period, encouraging results were reported from our own brands like EST that are utilizing our production lines in Hong Kong are sold in China featuring “Made in Hong Kong”. Through our participation with the Hong Kong Famous Watch Center in Hangzhou, China, we were able to yield good returns while gather direct feedback from the end consumers confirming that “Made in Hong Kong” watches with attractive designs are well received by the PRC end consumers.

### **DISTRIBUTION CHINA**

The management is extremely confident that the PRC downstream business will prosper and we are upbeat with the various accomplishments we have achieved. We are proud to establish the first Sino-Hong Kong Joint Venture in Chongqing, China formed under the CEPA arrangement with the retail rights and import rights in timepiece. Meanwhile, through organic growth and several equity participations, we have established a nationwide retail and distribution network covering over 560 points of sale in form of concession counters and shop-in-shop with over 30 regional offices supporting distribution and logistics needs. Within this network, we sell numerous international brand names including but not limited to Swatch, Citizen, Timex, Nike Timewear and Elle making the Peace Mark Group the largest distribution network of foreign brand name watches in the PRC.

Out of the 560+ points of sale, 170 points are operated in the form of shop-in-shop within the department stores under a nationwide channel name TimeZone, a retail network 90% owned by the Group. While ongoing integration of common resources amongst our various distribution networks are in the pipeline, our goal is to strategically increase the TimeZone network by increasing our retail presence in key areas while benefiting from the added intangible value to the Group as a consequence of increasing awareness of the name TimeZone amongst the end consumers in China.

In August, the Group entered into an agreement to acquire a controlling stake in an established timepiece distributor, adding 80 points of sale within the Eastern China region. This particular network is responsible for distributing and retailing the renowned Swiss fashion watch brand “Swatch”. The management of Peace Mark believes that strong sales will be recorded from this particular network, as the Swatch brand has been very successful in building its brand all over the world.

Our China distribution arms have been managing the distribution networks for over 30 international brands and this network has been providing the latest market intelligence to the brand owners as well as our in house design and product development teams for improved designs and product development exclusively for the PRC market. With the ability to design, manufacture and also participate in the distribution and retail end, Peace Mark is able to capture profit margins within each level of value chain.

Meanwhile, we are undergoing various negotiations with more brands to further strengthen our brand portfolio while working closely together to exploit the lucrative PRC market. It is expected that further integration works will occur in the coming 6 months in order to maximize the levels of synergies within our downstream divisions and achieve better margin.

For the period, the China business accounted for around 14% of the total turnover and we expect the percentage will further increase to the range of 15% for the financial year as a whole. Significant increase in turnover is expected to record in the second half due to the full period financial effect for the acquisitions completed during the first half and the stronger sales during the Christmas and Chinese New Year seasons.

## **USA**

The United States remains as a major and important market to the Group and further efforts were put forward locally and within our US joint venture company Omni Watch & Clock to enhance our long-term market competitiveness for selling direct. The ongoing trend is for major retailers in the United States to source directly from quality and reliable manufacturers as supply chain partners. We have set up an additional office in Bentonville to ensure prompt and speedy services for customer. While the US proves to be a relatively stable market, we were able to expand our direct sales business to new and existing customers and increase our network size by entering into various department stores and other specialty chain stores.

During the period, business to the US experienced steady growth accounting for 48.8% of the Group's turnover which was in line with management's expectations. The percentage of direct selling has been increasing according to the business plan. Due to seasonal factors and Christmas sales, the management expects stronger growth will experience in turnover in the second half of the year.

## **EUROPE**

2004 marked an important year for the Group's development in Europe. The Group's first luxury Swiss brand, Milus International SA experienced further growth by extending its presence within key markets around the world in Germany, Holland, Spain, Russia and Hong Kong. The new series launched during Basel Fair 2004 was well received and the company expects to open up new key markets during Basel Fair 2005 along with other newly developed product lines. New testimonials were also appointed from Russia, Spain, Germany and Hong Kong in order to create further brand awareness within their respective regions.

Furthermore, in line with the Group's intentions to expand into the upscale customer group, a representative office was also established in Paris to strategically identify potential partners and customers from around the European Union and eastern block aiming to exploit new markets and customers for the Group.

## **FUTURE PROSPECTS AND OUTLOOK**

The components production facility which was newly established and in production since August 2004 has demonstrated that we are moving towards manufacturing components for the high-end customers. Our aim is to achieve a balanced mix of production for high-end, mid-market and mass-market products. Peace Mark will further position itself and aims at capturing the benefits from the trend of major companies and retailers buying directly from the manufacturers and consolidating the supply side for better supply chain management.

Regarding China, Peace Mark continues in talk with several fashion brands for sales rights and also, with some of them, for exploring the opportunities in manufacturing. Business plans have been formulated to strengthen the channel name "TimeZone" and additional points of sale and department stores will be added in the coming few months. We shall work closely with the brands we are currently selling in China to devise marketing plans and, together with the expectation that we as their partners in China, could assist them to achieve their country sales target. We are proactive in refining our information system to provide up-to-date marketing information as benchmark for the brand operators to make inventory replenishment decision. On the cost front, integration of support and logistics services of the various distribution operations acquired is underway and we will remove the overlapping of certain resources.

In general, with all these development plans in the pipeline, the management is optimistic about the business future of the Company.

Moving forward, Peace Mark will continue to build a greater global presence and leverage the balance sheet further to pursue new business opportunities, in particular in the China market. With the enlarged production capabilities, solid brand portfolio and the established downstream business setup, the Group is positioned to capture profit margin in each level of the value chain to achieve better overall margins. The management of Peace Mark will closely monitor the integration process of its newly acquired businesses and will continue to broaden the levels of synergies amongst its subsidiaries and will also strive to ensure that shareholders' values are maximized.

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**

This period, the turnover was improved by 40.3% up to HK\$860.2 million. The increase in turnover was mainly a combined result of successful execution of the US direct sale business model as well as the further contribution from the distribution and retail of the China business. The gross profit margin was improved to 25.1%. The EBITDA reached a level of HK\$111.3 million representing a margin percentage of 12.9%. The EBIT level and margin percentage were HK\$75.2 million and 8.7% respectively. The net profit recorded was HK\$57.9 million representing a margin percentage of 6.7%. Geographically, the breakdown of turnover was approximately; The Americas of 49%, Asia (ex-China) of 22%, Europe of 15% and China of 14%.

In April 2004, the Company completed a share placement and raised a sum of HK\$202 million. The net proceeds have been applied as intended for the development of the distribution network in China and the expansion of the production facilities. The net gearing ratio (net debt to equity ratio) was maintaining at a comfortable level of 32.8% as at the period end date.

Regarding the working capital management, the total trade and other receivable turnover day was down from 101 days to 88 days as a result of better receivable management. The inventory turnover day was up from 104 days to 106 days. The inventory turnover day was a reflection of the business model of a vertically integrated manufacturer and distributor. However, the management has formulated plans to shorten the inventory turnover day in order to reduce the working capital requirement. The current ratio is standing at 2.1 times at the period end date.

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

#### **NUMBER OF EMPLOYEES AND REMUNERATION POLICY**

As at 30th September, 2004, the Group had a total of approximately 4,000 employees worldwide.

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

#### **OTHER DISCLOSURE**

Apart from above, other areas which are required to be disclosed under the requirements of paragraph 46 of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited either have no material changes from the information disclosed in the annual report of the Company for the year ended 31st March, 2004 or are considered not significant to the Group's operations, and hence no additional disclosure has been made in this announcement.

#### **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Monday, 20th December, 2004 to Wednesday, 22nd December, 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 Centre, 56 Gloucester Road, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on Friday, 17th December, 2004.

#### **PURCHASE, SALES, OR REDEMPTION OF THE COMPANY'S SECURITIES**

During the six months ended 30th September, 2004, the Company repurchased its own shares through the Hong Kong Stock Exchange as follows and all these shares have been duly cancelled:

Month of purchase	Number of ordinary shares of HK\$0.10 each	Price per share		Aggregate consideration paid HK\$'000
		Highest	Lowest	
		HK\$	HK\$	
August 2004	800,000	1.27	1.24	1,010

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company listed securities during the period.

#### **AUDIT COMMITTEE**

The Company has an audit committee which was established in accordance with the requirements of the Code of Best Practice, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises four independent non-executive directors of the Company. The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including review of the unaudited condensed consolidated interim financial statements for the six months ended 30th September, 2004.

#### **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, 2004, 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 save that the independent 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.

**PUBLICATION OF RESULTS ON THE STOCK EXCHANGE'S WEBSITE**

All the information required by paragraphs 46(1) to 46(6) of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited will be published on the website of The Stock Exchange of Hong Kong Limited in due course.

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

*Executive Directors:*

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

*Independent Non-Executive Directors:*

Susan So  
Kwok Ping Ki, Albert  
Wong Yee Sui, Andrew  
Tang Yat Kan

On behalf of the Board  
**Chau Cham Wong, Patrick**  
*Chairman*

Hong Kong, 3rd December, 2004

Please also refer to the published version of this announcement in The Standard.