



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)



中期報告 2004
Interim Report

CORPORATE INFORMATION

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

Ms. Susan So
Mr. Kwok Ping Ki, Albert
Mr. Tang Yat Kan
Mr. Wong Yee Sui, Andrew
Mr. Mak Siu Wing, Clifford
(*appointed on 17th December, 2004*)

Company Secretary

Ms. Fong Ho Yan

HEAD OFFICE AND 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

The United States

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

Switzerland

Route de Reuchenette 19
2502 Bienne
Switzerland

PRODUCTION FACILITIES

China

107 Shui Ku Lu
Fenghuang Gang
Xixiang Baoan
Shenzhen, PRC

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

Third Gong Ye Qu
Bitou Cun
Songgang Baoan
Shenzhen, PRC

50 Pangyu Lu
Changning District
Shanghai, PRC

Switzerland

Route de Reuchenette 19
2502 Bienne
Switzerland

DISTRIBUTION OFFICES

China

6/F Integrated Building
Shenzhen First Company
China Construction Second Division
Jing Er Road
Luo Hu District
Shenzhen, PRC

Room 1101
308 Da Tak Road
Guangzhou, PRC

Room 1501
15A Shuguang Building
189 Puan Road
Shanghai, PRC

Taiwan

3/F No 317
Sec 3 Ho-Ping E Road
Taipei, Taiwan
ROC

Panama

Apartado 2034
Zona Libre de Colon
Republic of Panama

France

10 rue Chardin
75016 Paris
France

Germany

Zahringerallee 25
D-75177 Pforzheim
Germany

WEBSITE

<http://www.peacemark.com>
<http://www.irasia.com/listco/hk/peacemark>

REGISTERED OFFICE

Clarendon House, Church Street
Hamilton HM 11
Bermuda

STOCK INFORMATION

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

STOCK CODE

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

INVESTOR RELATIONS

Corporate Communications Department – general
Corporate Finance Department – financial information
Peace Mark (Holdings) Limited
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 NV
Hang Seng Bank
HSH Nordbank AG
HVB AG
Merrill Lynch – US operation
Natexis Banques Populaires
Rabobank
WestLB AG

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
5th Floor Jardine House
1 Connaught Place
Hong Kong

SHARE REGISTRARS AND TRANSFER OFFICES

In Hong Kong:
Secretaries Limited
G/F Bank of East Asia Harbour View Center
56 Gloucester Road
Wan Chai 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 30th September,		Changes %
	2004 (Unaudited)	2003 (Unaudited, restated)	
Results			
Turnover (HK\$ million)	860.2	613.2	+40.3
Gross Profit (HK\$ million)	216.1	135.5	+59.5
EBITDA (HK\$ million)	111.3	65.9	+68.9
EBIT (HK\$ million)	75.2	43.8	+71.7
Profit Attributable to Shareholders (HK\$ million)	57.9	34.3	+68.8
Basic Earnings per Share (HK cents)	7.08	5.42	+30.6
Interim Dividend per Share (HK cents)	2.20	1.80	+22.2
	As at 30th September, 2004 (Unaudited)	As at 31st March, 2004 (Audited)	Changes %
Financial Position			
Total Assets (HK\$ million)	2,107.1	1,808.8	+16.5
Cash and Bank Balances (HK\$ million)	478.6	467.5	+2.4
Shareholders' Funds (HK\$ million)	1,040.8	777.9	+33.8
Net Assets per Share (HK\$)	1.25	1.13	+10.6

The board of directors (the "Board") of Peace Mark (Holdings) Limited (the "Company") is pleased to present the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30th September, 2004 together with the comparative figures for the corresponding period as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

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

CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Note</i>	As at 30th September, 2004 (Unaudited) HK\$'000	As at 31st March, 2004 (Audited) HK\$'000
Non-current assets			
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
		843,000	633,951
Current assets			
Inventories		373,213	309,909
Trade and other receivables	8	412,316	397,473
Cash and bank balances		478,550	467,491
		1,264,079	1,174,873
Current liabilities			
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
		608,467	536,669
Net current assets		655,612	638,204
Total assets less current liabilities		1,498,612	1,272,155
Non-current liabilities			
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
		377,042	434,078
Minority interest		80,765	60,178
Net assets		1,040,805	777,899
Capital and reserves			
Share capital	12	83,448	69,075
Reserves		957,357	708,824
Shareholders' funds		1,040,805	777,899

**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 dividend, 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)
As at 30th September, 2004	83,448	321,016	(11,988)	12,372	349,431	5,466	(26)	392	280,694	1,040,805

	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 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

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	Six months ended 30th September,	
	2004 HK\$'000	2003 HK\$'000
Net cash from operating activities	61,991	114,926
Net cash used in investing activities	(256,095)	(83,960)
Net cash from (used in) financing activities	205,163	(974)
Net increase in cash and cash equivalents	11,059	29,992
Cash and cash equivalents at 1st April	467,491	207,544
Cash and cash equivalents at 30th September	478,550	237,536
Analysis of the balances of cash and cash equivalents:		
Cash and bank balances	478,550	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, distributing and retailing timepieces products as well as providing after-sales services, 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 HK\$'000	2003 (Restated) HK\$'000	2004 HK\$'000	2003 (Restated) 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)
	860,237	613,226	141,240	93,637
Other revenue			9,008	4,596
Unallocated expenses			(68,371)	(53,927)
Finance costs			(9,900)	(6,785)
Profit before taxation			71,977	37,521

3. Profit before taxation

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

	Six months ended 30th September,	
	2004 HK\$'000	2003 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)
	31,192	27,924

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 HK\$'000	2003 HK\$'000
Current period		
Hong Kong profits tax	8,478	4,264
Taxation in other jurisdictions	42	15
Deferred taxation	(1,240)	(2,622)
	7,280	1,657

5. Dividends

	Six months ended 30th September,	
	2004 HK\$'000	2003 HK\$'000
2003 final dividend paid of 2.0 HK cents (2002: 1.5 HK cents) per ordinary share	16,539	9,491
2004 interim dividend declared of 2.2 HK cents (2003: 1.8 HK cents) per ordinary share	18,405	11,544
	34,944	21,035

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

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

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

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
	<hr/>	<hr/>
	813,530	803,466
Less: amount repayable within one year	(449,913)	(382,016)
	<hr/>	<hr/>
	363,617	421,450
	<hr/>	<hr/>
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
	<hr/>	<hr/>
	813,530	803,466
	<hr/>	<hr/>

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>2,946</u>	<u>3,209</u>

12. Share capital

	As at 30th September, 2004 HK\$'000	As at 31st March, 2004 HK\$'000
Authorized: 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>
Issued and fully paid: 834,476,669 (31st March, 2004: 690,753,531) ordinary shares of HK\$0.10 each	<u>83,448</u>	<u>69,075</u>

	Note	Number of shares issued	Paid-up nominal value HK\$'000
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>834,476,669</u>	<u>83,448</u>

Notes:

- 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:

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

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 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.

Number of shares issued as 2004 final dividend	Scrip price HK\$	Proceeds credited to		Total HK\$'000
		Share capital account HK\$'000	Share premium account HK\$'000	
8,333,326	1,350	833	10,417	11,250

13. 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,	
		2004 HK\$'000	2003 HK\$'000
Sales of finished goods to related companies	a	3,001	2,757
Rental for use of plant and machinery provided to charged to a jointly controlled entity	b	-	1,000
Rental for use of plant and machinery provided to and charged to a related company	b	1,000	-
Electroplating services provided by and respective fee charged by a jointly controlled entity	c	-	(4,918)
Electroplating services provided by and respective fee charged by a related company	c	(5,432)	-

Notes:

- a. Sales of finished goods to the related companies were conducted in the normal course of business at prices and terms as determined by the transaction parties on arm's length basis.
- b. The amounts of the rental received from the jointly controlled entity and the related company were agreed between the transaction parties on arm's length basis.
- c. Fees for electroplating services provided by the jointly controlled entity and the related company were charged at prices and terms as agreed between the transaction parties on arm's length basis.

14. Commitments under operating leases

As at 30th September, 2004, 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, 2004 HK\$'000	As at 31st March, 2004 HK\$'000
Within one year	4,825	2,646
More than one year but within five years	11,115	7,195
More than five years	-	933
	15,940	10,774

15. Contingent liabilities

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

INTERIM DIVIDEND

The Board has 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.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 40.3% 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 HK cents, up 30.6%.

REVIEW OF OPERATIONS

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 relationship 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 renovation works 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 renovation works 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 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 net sum of HK\$202 million. The 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.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30th September, 2004, the interests or short positions of the directors of the Company and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

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

Name of director	Personal interests	Number of ordinary shares			Other interests	Number of underlying shares held under equity derivatives	Total	Percentage of issued share capital
		Family interests	Corporate interests					
Mr. Chau Cham Wong, Patrick	65,631,077	-	286,740,459	68,416,795 (note a)	-	420,788,331	50.43%	
Mr. Leung Yung	-		355,157,254	65,631,077 (note b)	-	420,788,331	50.43%	
Mr. Tsang Kwong Chiu, Kevin	2,098,353	-	-	-	-	2,098,353	0.25%	
Mr. Cheng Kwan Ling	246,904	-	-	-	47,000 (note c)	293,904	0.04%	
Tang Yat Kan	-	120,000 (note d)	-	-	-	120,000	0.01%	

Notes:

- a. Mr. Chau Cham Wong, Patrick was deemed to be interested in 68,416,795 shares for the purposes of section 317 of the SFO, representing the deemed interests in United Success Enterprises Limited ("United Success") in respect of its holdings pursuant to a placing and subscription completed in April 2004 (the "Placing and Top Up"). As a result of the foregoing, Mr. Chau Cham Wong, Patrick was deemed to be interested in a total of 420,788,331 shares of the Company.
- b. Mr. Leung Yung has 49.55% voting control of A-ONE INVESTMENTS LIMITED and 100% voting control of United Success, both of which are vendors acting in concert with him in the Placing and Top Up. He was deemed to be interested in 65,631,077 shares of the Company for the purposes of section 317 of the SFO. Consequently, Mr. Leung Yung was deemed to be interested in a total of 420,788,331 shares of the Company.
- c. Mr. Cheng Kwan Ling's interests in 47,000 shares of the Company arose through holding warrants of the Company.
- d. Mr. Tang Yat Kan was deemed to be interested in 120,000 shares of the Company as these shares are held by his spouse (who was not a director of the Company).

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, 2004, 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, 2004, none of the directors of the Company, or their spouse 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 the share options outstanding during the period and as at 30th September, 2004 are as follows:

Participants	Number of share options		Date of grant of share options	Exercise period of share options	Exercise price of share options HK\$	Price of Company's shares at grant date of options HK\$
	as at 31st March, 2004	and as at 30th September, 2003				
Employees in aggregate	20,000		23/08/2002	23/02/2003 to 23/02/2006	0.2	0.202

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30th September, 2004, the following persons (other than the directors of the Company) were substantial shareholders of the Company (as defined in the Listing Rules) and had interests 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 shareholder	Note	Total	Percentage of issued share capital
United Success Enterprises Limited	a	420,788,331	50.43%
A-ONE INVESTMENTS LIMITED ("A-ONE")	b	420,788,331	50.43%
Arisaig Greater China Fund ("Arisaig")	c	44,553,964	5.34%
Arisaig Partners (Mauritius) Limited ("Arisaig Mauritius")	d	44,553,964	5.34%
Cooper Lindsay William Ernest ("Mr. Cooper")	e	44,553,964	5.34%

Notes:

- a. United Success was wholly-owned by Mr. Leung Yung. United Success was one of the parties acting in concert under the Placing and Top Up and so was deemed to be interested in 420,788,331 shares of the Company pursuant to section 317 of the SFO.
- b. Mr. Chau Cham Wong, Patrick and Mr. Leung Yung controlled 50.45% and 49.55% of A-ONE respectively. A-ONE was one of the parties acting in concert under the Placing and Top Up, and was deemed to be interested in 420,788,331 shares of the Company pursuant to section 317 of the SFO.
- c. This represented a direct holding by Arisaig of the shares of the Company.
- d. Arisaig Mauritius was the investment manager of Arisaig. This represented an interest in the shares arising by virtue of Arisaig Mauritius acting as discretionary investment manager of Arisaig pursuant to the SFO.
- e. Mr. Cooper was deemed to be interested, through his indirect 33.33% beneficial interest, in Arisaig Mauritius.

Save as disclosed above, the Company has not been notified of any other person (other than the directors of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at 30th September, 2004.

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 term loan facility 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 (direct or indirect) 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.

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 Stock Exchange of Hong Kong Limited 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 HK\$	Lowest 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 (five since 17th December, 2004) independent non-executive directors of the Company. The audit committee has reviewed with management the accounting principles and practices adopted by the Group and has discussed auditing, internal controls and financial reporting matters including review of the unaudited condensed consolidated interim accounts 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.

APPRECIATION

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

On behalf of the Board
Chau Cham Wong, Patrick
Chairman

Hong Kong, 20th December, 2004



A committed provider of quality timepiece designs, products and services.....

