

## Notes to Condensed 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 and the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The accounting policies and basis of preparation used in the preparation of the Interim Accounts are the same as those used in the annual financial statements for the year ended 31st March, 2001, except that the following new/revised SSAPs have been adopted for the first time in the preparation of the current period's condensed consolidated financial statements:

SSAP 9 (revised)	: Events after the balance sheet date
SSAP 14 (revised)	: Leases
SSAP 28	: Provisions, contingent liabilities and contingent assets
SSAP 29	: Intangible assets
SSAP 30	: Business combinations
SSAP 31	: Impairment of assets
SSAP 32	: Consolidated financial statements and accounting for investments in subsidiaries

The changes to the Group's accounting policies and the effect of adopting these new policies are set out below:

- (a) Goodwill arising on consolidation represents the excess of cost of acquisition of subsidiary and associate over the Group's share of the fair value ascribed to the separable net assets at the date of acquisition. In previous years, goodwill was taken to the reserves in the year in which it arose. With the introduction of SSAP 30, the Group has adopted the transitional provisions prescribed therein. New goodwill incurred on or after 1st April, 2001 is capitalised in the balance sheet and is amortised to the income statement on a straight-line basis over its estimated useful economic life. All goodwill arising from earlier acquisitions before 1st April, 2001 will continue to be held in reserves and no restatement has been made.
- (b) In accordance with the requirements of SSAP 31 and the transitional provisions of SSAP 30, an adjustment has been made concerning the impairment of goodwill arising prior to the adoption of SSAP 30 which was eliminated against available reserves. The adjustment, which represents a change in accounting policy, has been applied retrospectively in accordance with SSAP 2 "Net profit or loss for the period, fundamental errors and changes in accounting policies". Accordingly, goodwill in the amount of approximately HK\$9,207,000 which was impaired in prior periods has been recognised directly in the prior periods' retained profits as brought forward at 1st April, 2001 and this also results in a decrease in the Group's net profit after minority interests for the six months ended 30th September, 2000 of approximately HK\$6,399,000.



## 2. Segmental information

	Turnover HK\$'000	Operating profit HK\$'000
By geographical areas:		
North America	261,673	14,955
Europe	158,223	7,982
Asia	56,988	3,113
	<u>476,884</u>	<u>26,050</u>
Interest income		2,819
Interest expenses		(4,772)
Corporate expenses		(4,606)
		<u>19,491</u>

## 3. Profit before taxation

	2001 HK\$'000	2000 HK\$'000
Profit before taxation is arrived at after charging (crediting):		
Depreciation of tangible fixed assets	12,211	11,639
Amortisation of intangible assets	1,985	7,927
Loss on disposal of investments in securities	13,822	14,042
Interest expenses	4,723	5,009
Interest income	(2,820)	(1,702)
	<u>(2,820)</u>	<u>(1,702)</u>

## 4. Taxation

Hong Kong profits tax has been provided at the rate of 16% (2000: 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 region in which the Group operates.

5. Earnings per share

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

	2001 HK\$'000	2000 HK\$'000
<i>(a) Basic earnings per share</i>		
Profit attributable to shareholders	17,357	22,092
Weighted average number of shares	3,678,223,019	3,590,214,822
Basic earnings per share (cent)	<u>0.47</u>	<u>0.62</u>
<i>(b) Diluted earnings per share</i>		
Profit attributable to shareholders	17,357	22,092
Weighted average number of shares	3,678,223,019	3,590,214,822
Potential dilutive shares	<u>–</u>	<u>14,309,042</u>
Adjusted weighted average number of shares	<u>3,678,223,019</u>	<u>3,604,523,864</u>
Diluted earnings per share (cent)	<u>N/A</u>	<u>0.61</u>

6. Trade and other receivables

The Group allows an average credit period of 90-120 days to its trade customers. Included in trade and other receivables are debtors (net of provisions for bad and doubtful debts) with the following ageing analysis:

	At 30th September, 2001 HK\$'000	At 31st March, 2001 HK\$'000
0 – 3 months	163,905	101,004
4 – 6 months	<u>24,491</u>	<u>12,918</u>
	188,396	113,922
Deposits, prepayments and other receivables	<u>53,204</u>	<u>153,301</u>
	<u>241,600</u>	<u>267,223</u>



7. Trade and other payables

Included in trade and other payables are creditors with the following ageing analysis:

	At 30th September, 2001 HK\$'000	At 31st March, 2001 HK\$'000
0 – 3 months	22,478	19,342
4 – 6 months	<u>7,294</u>	<u>4,536</u>
	29,772	23,878
Accruals and other payables	<u>12,269</u>	<u>11,633</u>
	<u><u>42,041</u></u>	<u><u>35,511</u></u>

8. Maturity analysis of syndicated loan and other interest-bearing borrowings

	At 30th September, 2001 HK\$'000	At 31st March, 2001 HK\$'000
Within one year	250,693	198,824
After one year but within two years	36,282	36,638
After two year but within five years	<u>1,127</u>	<u>21,062</u>
	<u><u>288,102</u></u>	<u><u>256,524</u></u>

At 30th September, 2001, the syndicated loan and other interest-bearing borrowings were as follows:

	At 30th September, 2001 HK\$'000	At 31st March, 2001 HK\$'000
Bank overdrafts		
– unsecured	<u>75</u>	<u>4,849</u>
Syndicated loan and other interest-bearing borrowings		
– secured	4,953	6,240
– unsecured	<u>283,074</u>	<u>245,435</u>
	<u>288,027</u>	<u>251,675</u>
	<u><u>288,102</u></u>	<u><u>256,524</u></u>

**9. Share capital**

	Number of shares	Value HK\$'000
Shares of HK\$0.10 each		
Authorised:		
At 1st April, 2001 and 30th September, 2001	6,000,000,000	600,000
Issued and fully paid:		
At 1st April, 2001 and 30th September, 2001	3,678,223,019	367,822

**10. Reserves**

	Share premium HK\$'000	Merger deficit HK\$'000	Capital reserve HK\$'000	Leasehold property revaluation reserve HK\$'000	Other reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
The Group							
Balance as at 1st April, 2001 as previously reported	43,255	(11,988)	(28,787)	5,466	(17,907)	103,196	93,235
Effect of adopting SSAP 30 and SSAP 31	-	-	9,207	-	-	(9,207)	-
Balance as at 1st April, 2001 as restated	43,255	(11,988)	(19,580)	5,466	(17,907)	93,989	93,235
Realisation of unrealised holding loss of investments in securities upon disposal	-	-	-	-	17,882	-	17,882
Profit for the period	-	-	-	-	-	17,357	17,357
At 30th September, 2001	43,255	(11,988)	(19,580)	5,466	(25)	111,346	128,474

**11. Contingent liabilities**

At 30th September, 2001, the Group had contingent liabilities in respect of bills discounted with recourse amounting to approximately HK\$219,935,000 (31st March, 2001: HK\$165,210,000).

The Company has given guarantees to banks in respect of general banking facilities granted to subsidiaries amounting to HK\$580,000,000 at 30th September, 2001 (31st March, 2001: HK\$584,900,000). The extent of such facilities utilized by the subsidiaries at 30th September, 2001 amounted to approximately HK\$220,102,000 (31st March, 2001: HK\$151,114,000).



**12. Comparative figures**

Certain comparative figures have been reclassified to conform with the current period's presentation.

## RESULTS

The Group achieved a turnover of HK\$476.9 million and a profit attributable to shareholders of HK\$17.4 million for the six months ended 30th September 2001. These represent an increase of 3.1% and a decrease of 21.4% respectively as compared to the corresponding period in previous year.

The basic earnings per share was HK cent 0.47 (2000: HK cent 0.62).

As a continuation of the strategy in focusing the resources in the core business, the remaining portfolio of investments in securities (except a carrying value of approximately HK\$12,000) had been disposed of during the period and a realized loss of HK\$13.8 million was recorded. There will be no significant impacts on either equity reserve or income and expense in the following accounting periods.

## INTERIM DIVIDEND

With a view to reserving adequate funds for the business expansion of the Group, the Directors of the Company have resolved not to recommend the payment of an interim dividend for the six months ended 30th September, 2001.

## BUSINESS REVIEW

### Timepiece Export Industry

During the period, Hong Kong's timepiece export industry was facing stagnant demand from overseas markets, in particular, the US and the EU, amid the global economic slowdown. As reported by the Hong Kong Trade Development Council, the timepiece export recorded approximately HK\$20 billion in the first half of the year 2001 which was a 3% down as compared to the that of last year. However, the decline was in part due to the growing trend of Hong Kong manufacturers exporting directly from the mainland after production and more outward processing plants having their components sourcing locally. In general, the timepiece industry by offering value-for-money products to the market has been relatively more resilient than other export industries in Hong Kong in times of economic slowdown.

## Production

The management strongly believes that production is the foundation and the core on which other peripheral business expansions should be built. Vertical integration had during the period gradually contributed to improved cost control which ultimately translated to maintaining the margin of the business even though continued pricing pressure was an inevitable threat being encountered by the Group.

With a view to producing affordable yet quality products to the market, Peace Mark did not compromise stringent quality compliance while striving to maintain the profit margin. Peace Mark has just been awarded the 2001 Certificate of Merit in Quality by the Hong Kong Trade and Industry Department, following the award of productivity obtained last year, these have demonstrated Peace Mark's commitment in pursuing production excellence. On the hardware side, a laboratory equipping with all kinds of advanced testing equipments has been in operation to provide full range and the highest standard of testing services for our customers. Production management in combination with state of the art production facilities have been and continue to be the main driving force for producing quality products at a competitive price for the market.

In September 2001, Peace Mark acquired the remaining 45% equity interest in the main factory holding subsidiary at a consideration of HK\$31.5 million. The acquisition enabled Peace Mark to repossess floor area of approximately 5,700 square meter for production lines expansion and to regain 100% interests in the domestic sales right in China holding by that subsidiary.

## Business Expansion

Leveraging on strong production and design capability, Peace Mark has been extending into more ODM and licence businesses, in particular, in the area of fashion and sport watches. Up-market products had contributed to larger proportion of the product mix and more brand names of international repute were designed and manufactured by Peace Mark. As consumers were increasingly more fashion conscious, this market segment was still of the greatest market momentum and with the highest growth rate. To facilitate further licencing opportunities, Peace Mark was in process of further developing its Asian distribution network by appointing dominant local importers and agents. Strategic alliances by way of equity participation was another means adopted to strengthen the network. HK\$39 million which had been applied in the financial year 2001 as an advance for the development of distribution network was capitalized in the period as an equity interests in an associate for the market in Japan.