

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 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
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	<u>(835)</u>	<u>(1,917)</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 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Current period		
Hong Kong profits tax	8,478	4,264
Taxation in other jurisdictions	42	15
Deferred taxation	<u>(1,240)</u>	<u>(2,622)</u>
	<u>7,280</u>	<u>1,657</u>

5. Dividends

	Six months ended 30th September,	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
2003 final dividend paid of 2.0 HK cents (2002: 1.5 HK cents) per ordinary share	<u>16,539</u>	<u>9,491</u>
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 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
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	112,910	50,331
Accruals and other payables	31,606	92,120
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	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
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	813,530	803,466
Less: amount repayable within one year	(449,913)	(382,016)
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	363,617	421,450

	As at 30th September, 2004 HK\$'000	As at 31st March, 2004 HK\$'000
Analyzed as:		
– secured	19,200	23,928
– unsecured	794,330	779,538
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	813,530	803,466

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%.